

APPENDIX A

STATES AS MODELS OF NATIONAL SALES TAX

Direct income taxes have become overly burdensome, intrusive, and a direct threat to the personal and economic freedom that the Founders of this Nation waged a revolution to secure. American citizens are routinely and haphazardly discriminated against by our own tax system and its enforcement machine - the IRS. The ever-increasing cost of government is falling on an ever-decreasing population of citizens as the underground economy flourishes, illegal aliens tap into unreported incomes, the retired population expands, and the lobbying groups and pork-barrel politics shamelessly shape and manipulate the tax codes. The dishonest political environment that gave rise to a cynical third party movement and the depressing levels of economic growth as well as the decline in the American standard of living has much of its foundation in the direct income tax.

SOLUTION: Tax reform in America can be achieved and easily implemented by turning our attention **NOT** toward Washington but to the states that already function on a statewide sales tax **without** an income tax. None of the following states impose an income tax on their citizens: Texas, Florida, Nevada, South Dakota, Washington, Wyoming, and Alaska. Of course, each state has its own particular legislation and means of revenue raising but the main point to grasp is that sufficient revenue can be raised from a sales tax and that it is being done already. Real budgetary problems have been solved, implemented, and enforced by real people as chosen by the citizens of these states. Many of these states boast of compliance rates of 90% or better and a cost of compliance and administration only a fraction of the total state budget and total revenue collected. Prudently, the overall tax burden of the citizenry is limited by a state mandated cap on the total amount of taxation that local government may levy. All tax increases are voted on by the State Congressmen therefore making taxation more representative, accountable, and accessible to the people than what currently happens behind the closed doors of Washington. The merchants, as "trustees" of the state, collect the sales tax and remit payment to the government in accordance with a flexible time-table that is based not on the State's need for constant revenue but on the amount of business the merchant does. Remittance may be on a monthly, quarterly, or annual basis dependent upon the dollar amount of sales tax collected. [Currently, employers are held accountable for payroll taxes on a rigid semiweekly or monthly deposit scheme that pays no consideration to when the employees receive **their** money. A company that exceeds the \$50,000 withholding tax liability must make deposits on a semiweekly (once a week) schedule even if the payroll is only once a month or bi-weekly. This underscores the point that Social Security is no longer a benefit from a trust fund but a tax on a weekly basis and that the government can no longer wait for its share - not even until the employee is paid.]

BENEFITS:

- 1) Residency and legal status does not impede the state's ability to collect the necessary revenue while providing a system which does not promote discrimination and tax avoidance.
- 2) Provides a stable, controlled, environment for implementation since nearly all states have a sales tax. Revenue collection would not be interrupted and states are apt to reap savings from government downsizing, particularly if the states abandon income tax also on the state level.
- 3) The cost of compliance to the private sector would be greatly decreased; thereby producing savings both to the consumer via increased purchasing power and the merchant.

Texas: Providing a model for a National Sales Tax

Brief:

- * 6.25% state sales tax
- * 90% or better compliance rate
- * local governments have a 2% combined tax cap mandated by State Legislature. Locality includes city, county, special purpose district (e.g stadium/park area), and transit authority.
- * Property taxes are not included in the 2% cap but the state levies no property tax.
Only local governments may tax (city, county, and school districts).

Method of business Compliance

- * Need SS# and photo I.D. to get free mandatory permit either by walk-in, mail, or phone (renewal).
- * Merchants pay on a monthly, quarterly, or annual basis relative to their collected sales tax revenue.
monthly - collects \$3000+ a year in sales tax
quarterly - collects \$3000 or less a year in sales tax
annually - collects \$1500 or less a year in sales tax
- * When first legislated, had a \$20-25 permit fee for 2-3 years but that was revoked by merchant anger and common sense.
- * Non-permitted business reported by "snitch calls". The majority of "snitch calls" are put in by competitors.

Compliance Procedure:

- * 1-30 days delinquent, a 5% penalty of total sales tax owed to state is assessed. A delinquent notice is sent to the business. If there is no response, a phone center contacts the business directly
If there is still no response, a field office is notified, and phone contact MAY be attempted again. At the next step, the agents visit the location for a face to face with the owner.
- * From 31-60 days, there is an additional 5% penalty assessed. Beyond 60 days, a jeopardy notice is served, and an additional 10% penalty is assessed. These penalties can reach as high as 50% total throughout the process.
- * Forceful methods include liens on bank accounts, freezing and placing levies on bank accounts, cash register seizures, full business seizures, filing of a misdemeanor complaint, and certification with the state Attorney General's office.

History of sales tax

- * Enacted in 1957 legislature.
- * Implemented in 1961 at
1961 2.0% 1984 4.125%
1968 3.0 1986 5.25
1969 3.25 1987 6.0
1971 4.0 1990 6.25
- * Increased by vote of State Legislature

Budgetary Interests:

- * FY 96 State Budget Estimates 39.6 billion
- * FY 96 Comptrollers Budget Estimates 147.9 million
(Comptroller's office consists of Tax Compliance and Fiscal Affairs which collected 93% of all revenues for the state)

FY 95 State Budget (approximate)

- * 48.8% of State Revenue from all forms of taxes
- * 29.5% is from Federal Funding
- * 14% is from fees and miscellaneous mostly applied to administration/oversight
- * 53.3% of state tax revenue is from the sales tax
- * 43.7% of state tax revenue was from the sales tax in 1991

Tax Compliance Budget (approximate)

- * 50.6 million Auditing
- * 25.8 Compliance
- * 11.1 Tax Payer Information
- * 3.8 Tax Hearings
- Total is @ 91.3 million to comply with tax laws

Fiscal Affairs Budget

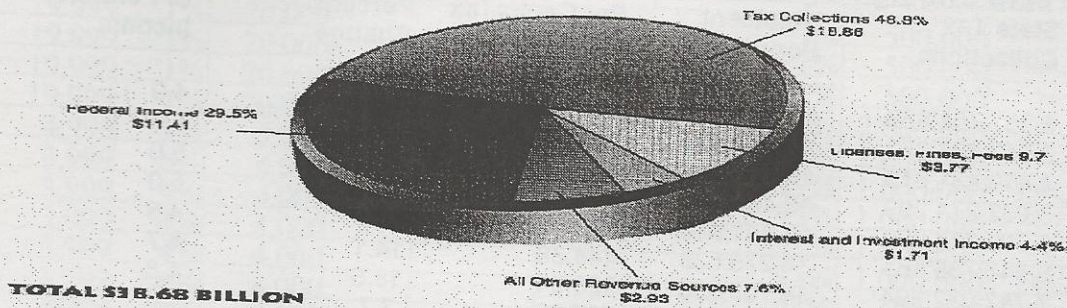
- 24.6 million Budgeting
- 32.0 Information/Tech

This one office collects 93% of all state revenue.

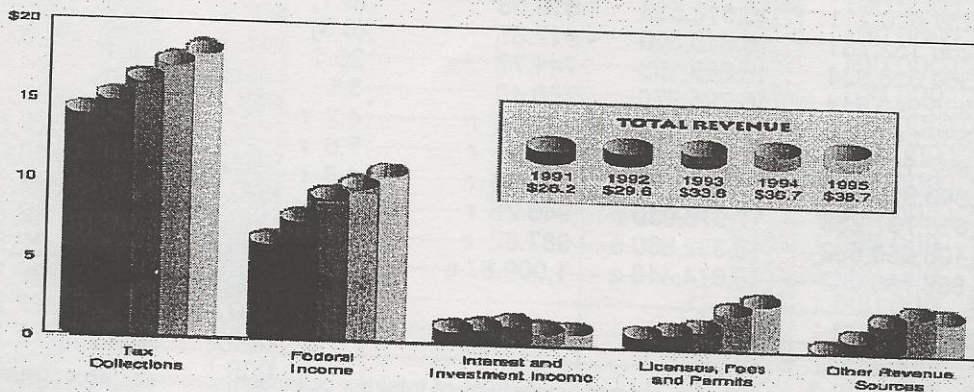
States without income tax:

Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming

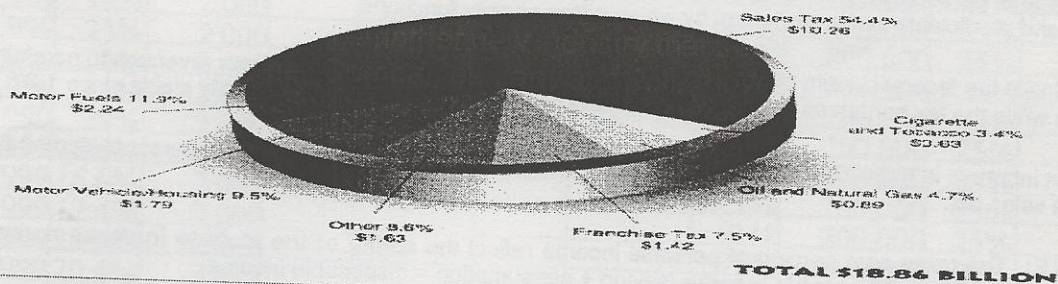
STATE REVENUE BY SOURCE - 1995
FUNDS 1-849
Amounts in Billions



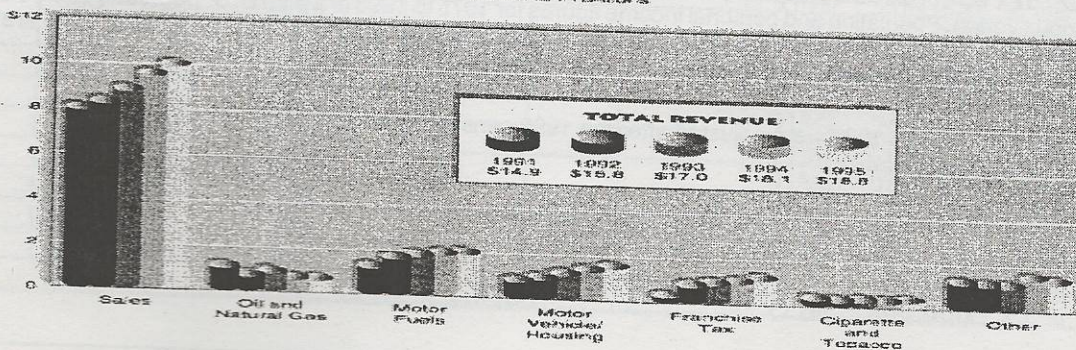
STATE REVENUE BY SOURCE FROM 1991 TO 1995
FUNDS 1-849
Amounts in Billions



TAX COLLECTIONS BY MAJOR TAX - 1995
FUNDS 1-849
Amounts in Billions



TAX COLLECTION BY MAJOR TAX FROM 1991 TO 1995
FUNDS 1-849
Amounts in Billions



TEXAS PER CAPITA STATE TAX COLLECTIONS

(RESIDENT POPULATION BASED ON FISCAL YEAR AVERAGE)

Fiscal Years Ending August 31

Taxes as a Percent

Fiscal Year	State Tax Collections	Resident Population	Per Capita Tax Collections	Percent Change	of Personal Income
1975	3,367,751,883	12,532,443	268.72	8.7	4.9
1976	3,913,827,072	12,857,805	304.39	13.3	5.0
1977	4,419,881,616	13,156,205	335.95	10.4	5.0
1978	5,032,274,299	13,464,130	373.75	11.3	5.0
1979	5,390,313,009	13,841,910	389.42	4.2	4.6
1980	6,343,785,161	14,275,538	444.38	14.1	4.7
1981	7,742,032,894	14,703,633	526.54	18.5	4.8
1982	8,650,025,743	15,246,920	567.33	7.7	4.8
1983	8,497,817,125	15,689,340	541.63	(4.5)	4.5
1984	9,305,839,492	15,977,295	582.44	7.5	4.6
1985	10,721,208,262	16,242,768	660.06	13.3	4.9
1986	10,231,670,211	16,512,533	619.63	(6.1)	4.5
1987	10,266,162,781	16,615,360	617.87	(0.3)	4.5
1988	12,364,618,924	16,669,153	741.77	20.1	5.1
1989	12,905,940,817	16,795,970	768.40	3.6	5.0
1990	13,632,640,459	17,019,503 r	801.00 r	4.2 r	4.9
1991	14,922,113,980	17,307,638 r	862.17 r	7.6 r	5.0
1992	15,848,915,148	17,627,978 r	899.08 r	4.3 r	5.0
1993	17,010,737,258	17,976,930 r	946.25 r	5.2 r	5.0
1994	18,105,950,592	18,332,860 e	987.62 e	4.4 e	5.0 e
1995	18,858,790,042	18,674,418 e	1,009.87 e	2.3 e	4.9 e

CONSIDERATIONS:

1) The state sales tax (which contributes approximately 50% of total tax collection) provides an extremely stable source of revenue for the state - concurring with the natural principle of economics - marginal propensity to consume (and marginal propensity to save). Unlike an income tax which is highly volatile and takes a greater and greater percentage of personal income regardless of consumption, savings, or cost of living; a retail sales tax reflects a stable, natural and predictable economic tenant by which a free society functions.

2) Unlike the federal system of income taxation, the Texas model has allowed state revenues to naturally grow with inflation while the tax burden as a percent of personal income has remained remarkably stable since 1975.

3) An increase in population does not demonstrate an increase in the percentage of personal income paid in taxes under a sales tax.

NOTE: The taxes as a percent of personal income reflect the ability of the state to increase revenue without drastically affecting disposable income (saving + consumption = disposable income).

SOURCE: Tax collection data was compiled from Texas Comptroller of Public Accounts, Annual Financial Report (Austin: various years). Population and personal income figures for 1975 to 1993 are from U. S. Department of Commerce (Bureau of the Census and Bureau of Economic Analysis). 1994 and 1995 population and personal income are based on Comptroller of Public Accounts estimates.

The figures from 1980 to 1989 were adjusted after the 1990 census became official.
e = estimated r = revised

Year	No Tax Below Rate		Lowest Bracket	R2 Intrmed	R3 Intrmed	R4	Top Captl Bracket Gains	Social Sec
1913	19,999	1%	20,000			7%	500,000	7%
1914	19,999	1%	20,000			7%	500,000	7%
1915	19,999	1%	20,000			7%	500,000	7%
1916	19,999	1%	20,000			15%	2,000,000	15%
1917	4,999	2%	5,000			67%	2,000,000	67%
1918	3,999	6%	4,000			77%	1,000,000	77%
1919	3,999	4%	4,000			73%	1,000,000	73%
1920	3,999	4%	4,000			73%	1,000,000	73%
1921	3,999	4%	4,000			73%	1,000,000	73%
1922	3,999	4%	4,000			58%	200,000	12.5%
1923	3,999	3%	4,000			56%	200,000	12.5%
1924	3,999	1.5%	4,000			46%	500,000	12.5%
1925	3,999	1.1%	4,000			25%	100,000	12.5%
1926	3,999	1.1%	4,000			25%	100,000	12.5%
1927	3,999	1.1%	4,000			25%	100,000	12.5%
1928	3,999	1.1%	4,000			25%	100,000	12.5%
1929	3,999	0.4%	4,000			24%	100,000	12.5%
1930	3,999	1.1%	4,000			25%	100,000	12.5%
1931	3,999	1.1%	4,000			25%	100,000	12.5%
1932	3,999	4%	4,000			63%	1,000,000	12.5%
1933	3,999	4%	4,000			63%	1,000,000	12.5%
1934	3,999	4%	4,000			63%	1,000,000	38%
1935	3,999	4%	4,000			63%	1,000,000	38%
1936	3,999	4%	4,000			79%	1,000,000	40%
1937	3,999	4%	4,000			79%	1,000,000	40%
1938	3,999	4%	4,000			79%	5,000,000	30%
1939	3,999	4%	4,000			79%	5,000,000	30%
1940	3,999	4.4%	4,000			81.1%	5,000,000	30%
1941	1,999	10%	2,000			81%	5,000,000	30%
1942	1,999	19%	2,000			88%	200,000	25%
1943	1,999	19%	2,000			88%	200,000	25%
1944	1,999	23%	2,000			94%	200,000	25%
1945	1,999	23%	2,000			94%	200,000	25%
1946	1,999	19%	2,000			36.5%	200,000	25%
1947	1,999	19%	2,000			36.5%	200,000	25%
1948	1,999	16.6%	2,000			82.1%	200,000	25%
1949	1,999	16.6%	2,000			82.1%	200,000	25%
1950	1,999	17.4%	2,000			91%	200,000	25%
1951	1,999	20.4%	2,000			91%	200,000	25%
1952	1,999	20.4%	2,000			91%	200,000	25%
1953	1,999	22.2%	2,000			91%	200,000	26%
1954	1,999	20%	2,000			91%	200,000	25%
1955	1,999	20%	2,000			91%	200,000	25%
1956	1,999	20%	2,000			91%	200,000	25%
1957	1,999	20%	2,000			91%	200,000	25%
1958	1,999	20%	2,000			91%	200,000	25%
1959	1,999	20%	2,000			91%	200,000	25%
1960	1,999	20%	2,000			91%	200,000	25%
1961	1,999	20%	2,000			91%	200,000	25%
1962	1,999	20%	2,000			91%	200,000	25%
1963	1,999	20%	2,000			91%	200,000	25%
1964	499	16%	500	19%	2,000	77%	200,000	25%

Year	No Tax Below	Rate	Lowest 1 Bracket	R2	Intrmed	R3	Intrmed	R4	Top Captl Bracket Gains	Social Sec
1965	499	16%	500	19%	2,000			77%	200,000	25%
1966	499	16%	500	19%	2,000			77%	200,000	25%
1967	499	14%	500	19%	2,000			70%	100,000	25%
1968	499	14%	500	19%	2,000			70%	100,000	25%
1969	499	14%	500	19%	2,000			70%	100,000	25%
1970	499	14%	500	19%	2,000			70%	100,000	29.5%
1971	499	14%	500	19%	2,000	40%	22,000	70%	100,000	32.5%
1972	499	14%	500	19%	2,000	40%	22,000	70%	100,000	35%
1973	499	14%	500	19%	2,000	40%	22,000	70%	100,000	35%
1974	499	14%	500	19%	2,000	40%	22,000	70%	100,000	35%
1975	499	14%	500	19%	2,000	40%	22,000	70%	100,000	35%
1976	499	14%	500	19%	2,000	40%	22,000	70%	100,000	35%
1977	2,199	14%	2,200	19%	4,200	38%	22,200	70%	102,200	35%
1978	2,199	14%	2,200	19%	4,200	38%	22,200	70%	102,200	35%
1979	2,299	14%	2,300	19%	6,500	39%	23,500	70%	108,300	35%
1980	2,299	14%	2,300	19%	6,500	39%	23,500	70%	108,300	35%
1981	2,299	14%	2,300	19%	6,500	39%	23,500	70%	108,300	35%
1982	2,299	12%	2,300	19%	8,500	35%	23,500	50%	41,500	28%
1983	2,299	11%	2,300	19%	10,800	32%	23,500	50%	55,300	28%
1984	2,299	11%	2,300	18%	10,800	30%	23,500	50%	81,800	28%
1985	2,389	11%	2,390	18%	11,240	30%	24,460	50%	85,130	28%
1986	2,479	11%	2,480	18%	11,650	30%	25,360	50%	88,270	28%
1987	4,440	11%	4,440	28%	16,800	35%	27,000	38.5%	54,000	28%
1988	4,950	15%	4,950	28%	17,850			33%	43,150	28%
1989	5,100	15%	5,100	28%	18,550			33%	44,900	28%
1990	5,300	15%	5,300	28%	19,450			33%	47,050	28%
1991	5,550	15%	5,550	28%	20,350			31%	49,300	28%
1992	5,900	15%	5,900	28%	21,450			31%	51,900	28%
1993	6,050	15%	6,050	28%	22,100	31%	53,500	39.6%	250,000	28%
1994	6,250	15%	6,250	28%	22,750	31%	55,100	39.6%	250,000	28%



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