



Tax Reform or Disaster?

NATIONAL RETAIL SALES TAX PROPOSED

No doubt, at some juncture in preparing your federal income tax returns over the past few months, you've commented to yourself, "There has to be a better way."

You aren't alone. There are a number of proposals being floated to simplify the federal tax code, but none of them strike terror into the hearts of retailers like the National Retail Sales Tax (NRST).

Under the legislation (H.R. 25), all federal taxes would be repealed and replaced with a national sales tax, collected by retailers. No more individual income tax, no payroll taxes, no self-employment taxes, no capital gains taxes, no gift taxes.

Instead, retailers would collect a 23-percent tax on virtually everything they sell, according to the bill's chief sponsor John Linder of Georgia. The money would be funneled to the federal government, just as state sales tax is already collected and submitted in most states.

While it may simplify the taxpaying process, most small business owners and retailers and organizations that represent

them aren't convinced.

The National Retail Federation opposes the idea, citing studies conducted in 2000 that show the NRST would result in a three-year decline in the national economy and a decline in employment and consumer spending.

The federation is also skeptical that 23 percent would be enough of a tax. Some envision a tax of 50 percent or higher to generate sufficient revenue to replace all federal taxes.

An even larger concern for equine retailers is the prediction that sales of nonessentials—such as saddles, bridles, halters, etc.—would drop drastically as consumers attempt to avoid paying taxes. One writer speculated that "discretionary purchasing could evaporate overnight."

Learn More Online

www.linder.house.gov

Web site for U.S. Rep. John Linder, primary sponsor of the National Retail Sales Tax.

www.salestax.org

Web site for National Retail Sales Tax Alliance, supporter of the idea.

Linder's bill would soften some of the administrative blow to retailers by offering a credit equal to one-quarter of one percent of the federal sales tax they collect and remit.

"In addition, retailers would no longer need to bear the cost of complying with the income tax, including the uniform capitalization requirements, the various depreciation schemes and the various employee benefit pension rules," a fact sheet on Linder's Web site states.

Statements by proponents of NRST that consumers can avoid paying taxes simply by purchasing less also send chills through most retailers, whose success is based on sales.

Retailers also worry that they would come under inordinate scrutiny by the federal government as it is anxious to assure every cent due to it is collected and remitted. Proponents tout elimination of the IRS as a benefit of the plan, but some arm of government would have to oversee collection.

Opponents argue that tens of millions of businesses have fewer rights than hundreds of millions of individuals and expect abuses by the IRS—or what's left of it—to rise exponentially.

For equine retailers, passage of the legislation would mean that the question about the size of the industry would be answered within days of the end of the first year of the tax. Internet sales would not be exempt, which means a level playing field for brick-and-mortar retailers competing against Online retailers.

It is unclear how likely the NRST is to become law; however, Linder claims that the list of co-sponsors for his legislation is growing daily.

The bar for passage of reform is set high. A national sales tax would require that two-thirds of the House and Senate and three-fourths of the states vote to repeal the 16th Amendment that created the income tax. ☐