Q. What is a national retail sales tax?

A. A national retail sales tax is a consumption tax collected as a flat-rate tax on all sales from businesses to households.

Retail sales are business sales to households; neither business-to-business nor household-to-household transactions qualify. For example, the sale of a newly constructed home to a family that will occupy it is a retail sale. But the sale of that same home to a business that intends to rent it to others is not a retail sale, nor is the sale of an existing home by one occupant to another.

A pure national retail sales tax would represent a sharp break from the current tax system, shifting the tax base from income to consumption. Rates would be flat; no goods or services would be exempted or favored; and tax administration, enforcement, and points of collection would be radically altered.

No country in the history of the world has enacted a retail sales tax rate anywhere near as high as what would be required to replace the US tax system. Whether such a tax could be implemented effectively remains an open question.

Updated May 2020

Further Reading


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