

# How Could We Improve the Federal Tax System?

NATIONAL RETAIL SALES TAX

## What is a national retail sales tax?

**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*

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### Further Reading

Gale, William G. 2005. [“The National Retail Sales Tax: What Would the Rate Have to Be?”](#) Tax Notes, May 16.

President’s Advisory Panel on Federal Tax Reform. 2005. “National Retail Sales Tax.” In [Simple, Fair, and Pro-Growth: Proposals to Fix America’s Tax System](#), 207–22. Washington, DC: President’s Advisory Panel on Federal Tax Reform.

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