

16 Retail Sales and use Taxation

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Abstract

When discussions turn to the growing “obsolescence” of state and local taxation in the economy of the twenty-first century, two state taxes are at the top of the list: the tax on corporate net income and the retail sales tax (RST). This article takes on the general retail sales tax. Whereas during the 1990s and into the 2000s that tax was the most important own-source revenue for state governments, it is now second to the state personal income tax. The article begins with a brief history of the tax and then examines a convergence of factors explaining its declining importance. It identifies three factors that have contributed to the sales tax-base shrinkage. It next evaluates all key facets of the RST against the test of economic efficiency (that is, the principle that a tax ideally should minimally interfere with, or “distort,” private consumer, labor, and producer decisions).

Keywords: [state taxation](#), [corporate net income](#), [retail sales tax](#), [own-source revenue](#), [tax-base shrinkage](#), [economic efficiency state taxation](#), [corporate net income](#), [retail sales tax](#), [own-source revenue](#), [tax-base shrinkage](#), [economic efficiency state taxation](#), [corporate net income](#), [retail sales tax](#), [own-source revenue](#), [tax-base shrinkage](#), [economic efficiency](#)

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