

COMMENTS BY DANIEL SHAVIRO  
on

Michael Greve, *From Tax Cartel to  
Competition: The Case for Origin-  
Based Sales Taxes*

# Important Points That the Paper Makes:

1) Significance of compliance complexity; difficulty of reducing it through voluntary harmonization.

--Note shared skepticism about local gov't processes in Shaviro, *Federalism in Taxation* (AEI 1993).

--An important caveat: locational distortion matters, too - and not just to MIT professors (amazon.com vs. Kramerbooks)

2) Notes that harmonization = cartelization; also, do we want local power projected outwards this way?

--But note that public goods require cartelization; Tiebout limits on local government power.

# What are origin basis and destination basis retail sales taxes (RSTs)?

## Comparison to VATs, flat tax, and X-tax:

--Main focus there is on inter-business transactions (ignored in a properly functioning RST).

Origin-basis: businesses include \$\$ from exports; deduct \$\$ for imports.

Destination-basis: don't include or deduct cross-border \$\$ (so full value on sale to consumers is be taxed - even if by a foreign business?).

--Origin basis and destination basis taxes are equivalent apart from administrative differences and transition.

Note that income taxes are always origin basis (cross-border cash flows may need to be included & capitalized).

# Origin basis and destination basis VATs et al

## Administrative differences:

--Origin basis requires transfer pricing; destination basis requires policing the border & creates “tourism problem”

## Economic equivalence:

--Origin basis taxes national production, destination basis taxes national consumption, but these are equivalent in the long run if defined in terms of residence by immobile individuals.

(Hence a consumption tax can use either, as in wage tax vs. sales tax, but an income tax must use the origin basis.)

# Back to the RST

## Administrative features:

- Origin basis no longer requires transfer pricing; sale to resident consumer is taxed in full or not at all (nexus issue)
- Destination basis still requires monitoring sales by outside businesses to residents

## Economic equivalence?

- Destination basis still taxes local consumption as defined by individuals' residence, but what does the origin basis tax?
- Apparently, consumption by anyone at a store within the jurisdiction, or from a production site within it for remote sales.

This can be rationalized administratively, but not otherwise.

# Does it matter that the scope of origin basis RSTs can only be rationalized admin'ly?

The arbitrary line-drawing may be no big deal if just a question of which jurisdiction gets fixed revenue (hard to settle normatively anyway).

And also perhaps no big deal if the idea is simply to limit the revenue that jurisdictions can get their hands on. **BUT:**

## 1) Difficulty of defining nexus

--Distortion of economic decisions that would affect nexus (tax-motivated creation as well as avoidance thereof)

--What if states disagree? (E.g., California asserts and NY denies NY nexus re. California production for NY sale.)

Does it matter that the scope of origin basis RSTs can only be rationalized admin'ly, cont.

2) Does the paper ignore a principled reason for taxing all production OR all consumption by residents?

(Requiring destination basis given how origin basis works under the RST)

Governments may (and should) consider distributional objectives in allocating the costs of providing public goods & transfers.

Hence few support uniform head taxes. (E.g., Bill Gates vs. a homeless person.)

# The Punchline

Origin basis RSTs are inconsistent with use of the tax to pursue distributional objectives with regard to residents.

No big deal given the limited use of RSTs in our fiscal system??

The paper's concerns (administrative and compliance costs, undue cartelization in pursuit of bad objectives, undue projection of power to foreign jurisdictions) still matter, too - but locational neutrality is not the only offsetting factor.

Plus, keep in mind that locational neutrality is not just an abstract theoretical idea (myriad consumer choices, not just MIT professors' blackboards), and that Tiebout factors limit local governments' ability to tax their residents' consumption OR production.