

## **Alternatives to Income Tax**

by William Menke, February 13, 2025

“Nothing is certain except death and taxes” (Benjamin Franklin, 1789)

Lots of talk about taxes, lately. Gotta fund that 6.75 trillion-dollar federal budget from somewhere. Being a "numbers person", I thought I'd run through a few alternatives to income tax.

How about a head tax, with every adult paying an equal share? With 78% of the US population of 336 million people 18 or older, that works out to a little under \$26,000 per person. Or \$52,000 if you file jointly. That would be impossible for a lot of folk to fork out.

How about tariffs? Total imports are about 3.83 trillion dollars, so one would need a tariff of 176%. Doesn't sound too bad. So what if my \$50 Chinese fleece sweater now costs \$138; how often do I buy fleece sweaters? However, the bottom line of \$110,000. for a \$40,000 Toyota SUV sounds a bit more daunting. Furthermore, for tariffs to work for longer than the first year, they must not discourage people from buying imports. I don't know about you, but I be discouraged from buying Toyota.

What about a national sales tax? Total consumer spending is about 10.3 trillion dollars, so the tax would need to be about 65%. That would be about twice the rate of the highest similar tax in the world (Hungary's 27% VAT). Now my fleece costs \$80 and my Toyota \$66,000. That would be manageable for a professional like me, but would be pretty stiff for people at the bottom of the pay scale.

I don't see how a combination of these three options could be made to work, either. A \$5000 head tax, a 50% tariff and 34% national sales tax would generate enough revenue, at least for the first year, but still would come down very hard on people at the bottom of the pay scale. Furthermore, a 50% tariff almost certainly lead to a decline in imports in subsequent years, requiring big increases in the sales tax.

This little exercise has taught me that it's easy to propose a radically new taxation scheme, but it's a lot harder to come up with one that actually might work. Part of the problem with tariffs is that they are self-defeating; high rates work against high revenues. Part of the problem with head taxes and sales taxes is that their rates can be no higher than the poorest segment of the population can afford. Income tax gets around this limitation because, by the scaling with income, its revenue is not limited by what the poorest segment of the population can bear.

Consequently, the numbers don't indicate any alternative to income tax really can work. And income tax works – sort of.