

# The Rate of the NRST

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These views do not reflect the views of the  
Congressional Research Service.

## Measuring the NRST Rate

- Replace temporary or permanent tax?
- Replace tax and deficit?
- Rebate tax on state purchases?
- Inventory credit/debt windfall.
- Compliance/Administration.
- Exemptions.
- Growth.

## Adjustments to NIPA for Underreporting

- Proprietorship (2004) \$356.7 bil.
- Wages (2005) \$117.3 bil.
- Corporate Profits (2003) \$187.3 bil.
  
- Total (2007) \$786 bil.
- As % of NRST Base: 8.4%

## Avoidance Methods

- Underreporting
- Not reporting
- Misuse of exemption certificate or rebate claim
- Use tax
- Setting up shell business for personal use
- Selling under fair market value, reselling

## State/International Compliance Studies

State/Country	Type	Rate
Minnesota	Comprehensive	10% - 15%
Washington	Registered Firms	3%
Idaho	Comprehensive	20.9%
California	No documentation	4%
MTC	Unclear	8% - 10%
UK VAT	Comprehensive	14.6%

## Rates With Compliance Correction

Origin	Non-Compliance Rate	Tax Inclusive	Tax Exclusive
Base	0%	23.8%	30.8%
NIPA	8.4%	26.0%	35.1%
Minnesota	12.9%	27.3%	37.6%
Idaho	20.9%	30.1%	43.1%
UK VAT	14.6%	27.9%	38.9%

## Economic Growth

- Short Run: Consumption will fall unless labor supply increases. Is this likely?
- Marginal tax rate on wages is similar and maybe even higher (preferences, evasions, social security link). Intertemporal response to interest rate questionable.
- Long Run: Depends on plausibility of intertemporal models.
- Swamped by growth in Federal transfers?

## Other Issues in the NRST

- Inventory transition (1<sup>st</sup> year: \$490 billion, increase rate to 25.1/33.6); maybe more.
- Debt recapture: what about a surprise?
- Administration challenges.
- Distribution: by income and age.
- Economic efficiency.
- Transition – the biggest problem of all.