

2.3 Consumption Taxes

- ▶ Find the sales tax on an item.
- ▶ Find the excise tax on an item.
- ▶ Find the value-added tax on an item.

The Federalist No. 21

“It is a signal advantage of taxes on articles of consumption, that they contain in their own nature a security against excess. They prescribe their own limit; which cannot be exceeded without defeating the end proposed, that is, an extension of the revenue. . . . If duties are too high, they lessen the consumption; the collection is eluded; and the product to the treasury is not so great as when they are confined within proper and moderate bounds.”

Alexander Hamilton

Finding the Sales Tax on an Item

A **consumption tax** is a tax on spending. There are three basic types of consumption taxes: sales tax, excise tax, and value-added tax.

Consumption taxes do not tax savings, income, or property. Although personal and corporate income taxes provide most of the revenue to the federal government, consumption taxes are a primary source of income for state and local governments. The United States implemented consumption taxes much earlier than income taxes. The paragraph at the left was written by Alexander Hamilton in the Federalist Papers in 1787.

EXAMPLE 1 Finding Sales Tax

In the United States, sales tax rates vary greatly. Several states have no sales tax. There are states in which cities and counties have sales taxes, which are added on to state sales taxes. Find the sales tax on each item.

- a. Yacht: \$214,000
Sales tax: 8%



- b. Sports car: \$65,900
Sales tax: 7%



Study Tip

In Example 1a, you can estimate the sales tax to be “a little less than 10%.” Because 10% of \$214,000 is \$21,400, a sales tax of \$17,120 is reasonable.

SOLUTION

Retail price 8% tax rate

a. $214,000(0.08) = \$17,120$
 The sales tax is \$17,120.

Retail price 7% tax rate

b. $65,900(0.07) = \$4613$
 The sales tax is \$4613.

✓ Checkpoint

Find the sales tax on each item.

- c. High heel shoes: \$250
Sales tax: 6%

- d. Watch: \$1350
Sales tax: 7.4%

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