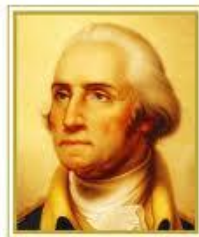




A COMPARATIVE ANALYSIS BETWEEN THE VALUE ADDED TAX IN MÉXICO AND THE UNITED STATES SALES TAX



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CARLOS IVAN MARTÍNEZ CASTRO
ADVISOR: MATT MITCHELL

ABSTRACT: Over the past months Mexico has faced several reforms in its legislature, and one of which was the tax law. The present paper expresses a point of view about policy and decision making between Mexico and United States tax systems, making reference on the VAT and Sales Tax respectively, pointing out the performance of the adopting systems. This paper also provides a possible recommendations and challenges to improve the economic development of Mexico.

KEYWORDS: Sales Tax, Impuesto al Valor Agregado, impact of the Sales Tax, Impact of the VAT

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1.-Introduction

While the idea of "tax" is frowned upon by most people, we have to stop and think, what if they did not exist? Most of us do not contemplate in our daily lives donating money to be used for the benefit of others, unless it involves some benefit for us as well. In that order, the idea of taxes becomes a possibility for all to receive a benefit from the contributions of all. This will be possible if there are other factors involved. To name a few: no corruption, taxes in line with the income of the people, people with a clear knowledge about what expenses are generated using the money from taxes, among others.

Our Mexican law clearly provides for and regulates these aspects. But then, why can't we reach the projected level of development in each fiscal year, taking into account that Mexico has a tax burden not as high as in other countries?

For the present study we will take as a starting point the Impuesto al Valor Agregado (Value Added Tax, IVA), since it represents the clearest index of people's

purchasing power. Regardless of their economic situation, all persons (whether natural or legal) need to make expenditures in order to survive and meet their needs.

The time limit for this investigation is the year 2013. In addition, we will use projections by various organizations, enterprises, and media that allow us to have a base of knowledge necessary to generate a comparison between the Mexican tax system and the United States tax system in relation with the tax sales, (equivalent to Mexican tax IVA).

It will be analyzed what allows to U.S, to have a tax on retail sales inferior to Mexico and how the sales tax can vary from state to state, thus allowing people to decide whether it is suitable for them or not to purchase goods or services in certain areas of the country.

Finally, we seek to express a solution that allows a better collection of taxes in Mexico at a time which that means a better distribution of wealth, an improvement in the services the state provides and find a way to decrease the tax burden on people to incentives with that the tax contribution.

2. History of the Value Added tax in México

The so-called "Impuesto al Valor Agregado" (Value Added Tax) as it is known in our time, has its predecessor in England, where they invented the use of adhesive stamps or stamps for payment of postal charges in 1940, in Mexico that system was adopted in 1856, and for the year 1863, stamp tax payments were issued.

For the year of 1873, with the "Ley del Timbre" (Stamp Act), they began to tax activities that were not covered by the stamped paper, as were the manufacture and bottling of alcoholic beverages, gambling, raffles, transportation and shipping, professional activities, preparation of snuff and cigarettes, among others.¹

In 1948, it entered into force the "Ley del Impuesto Federal Sobre Ingresos Mercantiles" (the Federal Law on Commercial Income tax), replacing the "Ley del Timbre" (Stamp Act). This law expressed a tax on trade on the price by applying a rate of 4%, and taxes on excise.

¹ Tributaria, S. d. (10 de Noviembre de 2011). *Secretaría de Hacienda y Crédito Público*. Obtenido de http://www.sat.gob.mx/21_19712.html

It was from December of 1978, that in order to eliminate the Stamp Tax, the Value Added Tax (IVA) became widespread at the federal level. The Congress passed the Law on value Added Tax which came into force on January 1980 to replace the Federal Law on Commercial Income tax², at the time that it was formalized the creation of the National System of Fiscal Coordination, which established the guidelines of the new Fiscal Coordination Law, this sought to generalize the collection of sales and implementation and replace multiple indirect taxes.

The explanatory memorandum to the Tax Law “Ley del Impuesto al Valor Agregado³” (Law on Value Added Tax) came out of the desire to create a substitute for Federal Tax Commercial Income, which represented an increase in the tax burden. This caused that obligations were generated secondary, raising the costs and therefore the effect on prices as the percentage increase in the application rate, was accumulated in each business transaction of goods or services to the consumer. The result was a cumulative tax.

With the implementation of the “Ley del Impuesto al Valor Agregado” (Law on Value Added Tax), the cumulative effect will be destroyed with the application of a measure called tax accreditation, which is to subtract the IVA (Valued Added Tax)

² Valdivia, G. G. (s.f.). *Impuesto al Valor Agregado*. Obtenido de Bibiojuridicas unam : <http://biblio.juridicas.unam.mx/libros/5/2338/9.pdf>

³ Gaceta Parlamentaria de la Cámara de Diputados de 30 de Noviembre de 1978, Cfr. Gómez, Enrique y Ocampo, Campos, Estudio Práctico del IVA Impuesto al Valor Agregado, México Dofiscal, 2010, p.2

that was caused or received from the IVA (VAT) paid for purchases and expenses, as well as the IVA (VAT) if they had retained.

2.1 Value Added Tax, (IVA) in México

Article 31 of the Mexican Constitution provides as an obligation for the Mexicans to contribute to the Mexican public expenditure of the Federation, the Federal District and the state and municipality of residence, proportional and equitable manner provided by law. The state as a political organization must meet certain needs of society, while covering costs that generate these needs, and can only be achieved through public financing, which involves the collection of taxes on the subject law required, in order to be returned to society through public goods and services.

We should note that this implies that while people pay their taxes, they generate a reduction in their income and that causes it to be perceived as the high price of goods and services for which they must pay to carry out their daily activities.

In Mexico there are two types of taxes, direct taxes and indirect taxes. Direct taxes are those that are applied directly to the wealth of the people that is, their income or assets involving the existence of such wealth as the case of real estate.

In this case we will find that the most important direct tax in México is the Impuesto Sobre la Renta or ISR, for the U.S, it would be the income tax.

On the other hand, indirect taxes are those that will affect those subject to law, who will be the final consumers of the goods or those subjects to law delivering a service.

In the indirect tax classification, we find the Value Added Tax (IVA) and the Special Tax on Production and Services (IEPS).

According to the above, it follows that in México, there are 2 types of tax systems, one gradual and progressive, and one regressive. In the first of them, will find that the tax rate will depend according to income of the parties responsible for this contribution. On the other type, the regressive system means that regardless of the income level of persons liable for payment of the tax, the same rate will be paid. That is why this system is considered disproportionate and unfair. For the sake of this paper, this idea will be discussed later.

3. General information about the IVA Tax in México

The tax consists of four parts, which are:

- Subject
- Object
- Base
- Rate

3.1 Subject. - People, whether individuals or corporations that in Mexico's territory, perform the acts or following activities: sale of goods, rendering of independent services, granting of use or enjoyment of goods and importation of goods or services.

3.2 Object. - Will be the fact that the contribution will generate, and therefore are the activities described in the definition of Subject.

3.3 Base.- It is conformed by the value, price or consideration of the transactions which are the subject of the tax.

3.4 Rate -. It is the economic contribution generated by the application of the tax, until December of 2013, the application of the rate was expected as 16% overall, with the exception of border towns, where the rate of 11% applied and a 0% rate applies to certain acts and activities. For fiscal year 2014, the approval rate is 16%, and will be mandatory throughout the Mexican Republic.

4. Who pays the IVA Tax?

According to the first article of the Ley del Impuesto al Valor Agregado⁴ (Law on Value Added Tax), "They are obliged to pay the value added tax, the physical and legal entities in national territory, perform the acts or activities that are intended to disposal of goods, rendering of independent services, the granting of use or enjoyment of property, and finally, that the importation of goods or services."

The IVA tax, is considered as an indirect tax because is levied on the value of the acts or activities and does not distinguish the final consumer, who will be the person to absorb the actual contribution. For instance, for the tax it will be no difference if the final consumer is poor or rich.

⁴ Union, C. d. (11 de Diciembre de 2013). *Diputados.gob.mx*. Obtenido de <http://www.diputados.gob.mx/LeyesBiblio/pdf/77.pdf>

In that vein, we have the example that if a person makes a purchase at any store, he is paying the IVA to the corporation, then the corporation must deduct the tax and deliver it in a monthly statement to the authorized offices (the authorized body is the tax Administration Service) to pay the tax to the Department of Finance.

About the change in the distribution of private real income induced by a tax, we need to keep in mind that people who tend to consume a lot of some good subject to tax, will be worse off, this can also change the income distribution by affecting the sources of income, for instance, reducing the demand could lead to hurt the producers, which will lead to affect the income of the people who works for them.

5. How to pay it?

Previously it was noted that the final consumer who would pay the tax at issue.

We must make the distinction that two cases can occur, one is the possibility of accredit the tax, and the second is called withholding. The very first article of the law in question states that the taxpayer will transfer the tax explicitly and separately for those who acquire property, temporary use or enjoy, or receive services, also states that when the tax payers accredit the tax, they will have to pay the difference to the Secretariat of Finance and Public Credit.

In the case of the retention, Article 1-c of the “Ley del Impuesto al Valor Agregado” (Law on Value Added Tax) expresses the subjects that are required to withhold the tax that is being transferred to them, and also states that the retainer replace the transferor service or granting the use or enjoyment of property in the liability and whole tax (retention value added tax has its origin in the possibility for the authority to monitor the activities of people moral rather than the activities of individuals, so that when the corporation pays 16% IVA (VAT) to the individual, the moral person individual retains two-thirds of that 16%, thus, it would be 10.66%).

6. How much is paid?

The tax rate is expressed as 16% in the first article of the “Ley del Impuesto al Valor Agregado” (Law on Value Added Tax), however the second-A section of the Act of merit, expresses that it could apply a rate of 0% to various specific disposals.

Applying the 0%, aims to the various goods and services to which the rate applies, do not include IVA (VAT) in price, but at the same time, the IVA paid for the production of these goods. It is returned to the producers by the taxing authority, or where applicable, the IVA paid what can be offset against other federal taxes. On the contrary, those goods that are exempt from IVA tax, and they were used during

the production. At the end of this, the production already contemplates the tax payment of IVA, so in this case, the IVA tax will not be refunded to the producers.

What we will achieve modifying the measure to change those goods and services which rate is 0% to be exempt from tax or be taxed also at a 16% rate, will lead to greater revenues, because if the producers are unable to demand that the IVA tax be returned to them, this would generate a greater reduction in tax evasion, since greater certainty that the expenditure incurred in the production will be true finding no benefit to the subject to modify the amounts in balances for purposes of repayment, on the other hand, removing the application rate of 0%, the job is much simplified by the tax authorities and businesses.

7. Budget of the Mexican Federation from the IVA tax

7.1 How much money did the Federation obtain for the fiscal year 2013?

As published in the initiative of the Law of Federal Revenue for Fiscal Year 2013⁵, the income the federation would receive during fiscal year 2013 from the IVA tax (Value Added Tax) amounted to the amount of 617,900.3 million of Mexican pesos, which represented 40% of federal income because of tax collection, this represented the second largest source of tax income after the Impuesto Sobre la Renta (income tax).

It should be noted that the above mentioned Act initiative, says that to make the forecast of tax revenues, it was considered the time series of income for the years 1990-2011, the revenue forecast for fiscal year end 2012, and economic framework for fiscal year 2013.

Regarding the IVA (Value Added Tax) , we must note that direct taxes are a major source of income in Mexico as well, with regard to the present, in the month

⁵ Mexicana, P. d. (1 de Enero de 2013). *Secretaría de Hacienda y Crédito Público*. Obtenido de http://www.shcp.gob.mx/INGRESOS/ingresos_ley/2013/iniciativa_lif_2013.pdf

of June 2013, the “Centro de Estudios de las Finanzas Públicas⁶” (Center for Study of Public Finance) issued a revenue comparative data on tax revenues in Mexico and the countries of the Organization for Economic Cooperation and Development, stating that if it is true that most countries tend to increase their tax burden, respect to Mexico, has one of the lowest rates of revenue collection by recording 19.7 % of GDP , due to the above , according to the international organization , is the product of narrow tax bases, as well as a high level of informality, weak tax administration and the system of special procedures, as contemplated various deductions and exemptions that caused a shortfall in tax revenue , (same as with the reforms that occurred in the month of December 2013 were eliminated).

7.2 How much money did the Federation expect to obtain for the fiscal year 2014?

Similarly, through the initiative of Act Federal Revenue for Fiscal Year 2014⁷, taking into account the historical series of income from 1990 to 2012, the revenue forecast for fiscal year end 2013 and the framework budget for fiscal year 2014, the

⁶ Públicas, C. d. (12 de Junio de 2013). *Centro de Estudios de las Finanzas Públicas*. Obtenido de <http://www.cefp.gob.mx/indicadores/gaceta/2013/iescefp0262013.pdf>

⁷ Mexicana, P. d. (1 de Enero de 2014). *Secretaría de Hacienda y Crédito Público*. Obtenido de http://www.apartados.hacienda.gob.mx/presupuesto/temas/ppef/2014/ingresos/01_lif_2014.pdf

income expected by the federation concept of IVA tax (Value Added Tax) are the amount of 632,368.5 million of Mexican pesos (This amount represents only 2.34% of the proceeds in 2013, very little considering that the border IVA increased from 11% in 2013 to 16% in 2014.)

For the year 2014, the “Centro de Estudios de las Finanzas Públicas” (Center for Study of Public Finance) projected that the amount that the Federation will receive for the collection of IVA (Value Added Tax) in respect of the year 2013, pass from 40% to 35% even with the implementation of tax tuition, pets, pet food, soft drinks, chewing gum, events, concerts, jewelry, etc., going to offset that loss, the “Impuesto Sobre la Renta” (income tax).

It is important to note that the reforms that were approved for fiscal year 2014 are grounded in six bases, according to the bill on Federal Revenues for fiscal year 2014 are:

- Promote growth and stability.
- Improve equity of the tax system to promote progressivity in tax payments.
- Facilitate compliance with tax obligations.
- Promote formality.
- Strengthen fiscal federalism.

- Strengthen Petroleos Mexicanos (PEMEX) to give it a more modern and efficient tax system.

8. The impact of the IVA Tax on the middle and low class

8.1 Why are they affected by the Tax?

As stated earlier in this work, the application of the IVA tax (VAT) is regressive, because it doesn't matter what is the income level of the people, the IVA tax makes no distinction, to better specify the situation, consider the basis of the latest information submitted to through the National household Income and expenditure Survey⁸, it is stated that for 2012, total average current expenditure per household stood at 33 thousand 746 Mexican pesos quarterly, which states that the items to which households spend a higher percentage of expenditure are: food, beverages and snuff 34%, 18.5% transport and communications, education and recreation 13.8 %, also the information indicates that payments to subordinate employment continued to represent the most important current income people part.

⁸ Geografía, I. N. (16 de Julio de 2013). *Instituto Nacional de Estadística y Geografía*. Obtenido de <http://www.inegi.org.mx/est/contenidos/Proyectos/encuestas/hogares/regulares/enigh/>

To study the effects of personal income, income will be divided by households, which can be grouped according to income perceived in them, each of these groups are known as "deciles", when grouped ten sets of equal size, where the first decile consists tenth of households with the lowest income, while the last decile, by a tenth of households with higher incomes.

Now we present the data from the National Household Income and Expenditure Survey (ENIGH) 2012 which reflect Déiles household income:

Déiles Household Income	Current total average quarterly income per household grouped by Déciles of households National Total 2012 (Mexican pesos)
Total	38, 125
I	6,997
II	11,794
III	15,734
IV	19,513
V	23,914
VI	28,862
VII	35,570
VIII	44, 849
IX	61,014
X	133, 003

As expected, the table shows that in the case of Décile I (households with less income), 52.1% of their perceptions were allocated to spending on food, beverages and snuff, while the Déciles V and X, this item of expenditure accounted for 41.3 and 22.8 percent, respectively. The groups with mayor differences between the Déciles are: education and entertainment, and transportation and communication. The decile I spent 5.2% of their spending in the first category, while the V and X decile spend 10.4 and 19.9 percent, respectively.

From the information obtained , we can see that with a little logic it would expect those results , because if people get a basic salary to try to meet their needs with that income, it will not be possible for them to use part of their income to invest in their education or leisure purposes, then we realize that they are the people who need cleaver education or better tools to enhance their income level but if they try to do that with the income that they have, they will been limited, since they would not cover their basic needs. On the other hand, we realize that the application of the benefit of the application at 0% rate or the IVA tax exemption , although its intention is to help people with fewer resources , these incentives will only be able to be used by the persons which your budget allows them to enjoy the same, and since the imposition of the benefit does not seek to limit the wealth of people, but to help the less fortunate, is not frowned upon or otherwise go unnoticed profit generating them people with higher incomes.

9. History of the Sales Tax in the United States

According to the author William F. Fox⁹. The use of sales taxes by U.S. states dates back at least to the Pennsylvania mercantile license tax that was initially introduced in 1821.

On the other hand, the author Alfred Grether Buehler, express that “the Sales tax was a result from the depression era, he credits Kentucky with the first tax levied exclusively on retailers. The initial tax, passed in 1930, was progressive, but was replaced in 1934 with a 3 percent flat rate tax and then was eliminated in 1936¹⁰”

We will see that every state can put his own Taxes, According to the Constitution of the United States of America¹¹ in his article I, section 2, says “the representatives and direct Taxes shall be apportioned among the several States which may be included within this Union; also we found another topic referent to the taxes in the section 8, which establishes that the Congress shall have Power To lay

⁹Fox, W. F. (13 de March de 202). Obtenido de cber.bus.utk.edu/staff/mnmecon338/foxipt.pdf

¹⁰ Idem

¹¹ www.archives.gov/exhibits/charters/constitution.html

and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States."

The power of the states to levy the taxes comes from the article VI of the United States Constitution, when the article VI refers that "the Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding."

The previous article is fundamental to this study because it allows the fifty states of the United States to have their own independent sovereignty state constitutions and their own state governments. Also, they retain plenary powers to enact laws relating to any matter not expressly subject to federal jurisdiction by the federal Constitution.

The references expressed before, will serve us to have an idea how the tax system works and will allow us to make a comparison with México, thus, we will analyze four states of the United States, two of them with the high sales tax and two of them will be those who have the lower sales tax, that to make a comparison about what is the factor that determines the rate, and if this is possible to apply in México.

In that order, first we have to define what the sales tax is and then we will pointing out about how it works in each state.

10. General Information About The Sales Tax and the difference with the Mexican Value Added Tax

Contrary to what we saw with the Mexican system, there is no value added tax in the United States.

In the case of México, there is a law for the Valued Added tax, but in the United States each territory can vary the Sales tax according to his local law, also will be only the final buyer who pays the tax.

We need to point out that each state will be able to establish the rate of the Sales tax, as well that they are allowed to make exclusions and exemptions to the tax.

The exemptions will be as in the Mexican tax system, thinking about the fairness, and to support the low class, but in the United States they have to consider as well that other states could raise or lower the tax, this change in the price of the good or service could lead to a loss on the economy of the state and also the changes could have an effect in the production cost of the goods.

Also another important difference between the Valued Added Tax and the Sales tax, is that every business transaction is taxed, this makes the administration of the tax collection easier.

Another thing that we need to know about the states autonomy is that they also usually impose local sales taxes, and they could apply for the same good, this means that at the end the final consumer will have to sum the rates of the tax and then multiply it by the cost of the good, we think that this measure is to have more revenues, also another measure to protect those revenues would be the use tax, which implies that the items that a person buys outside of the state for use in the state will be tax, this because people can choose where to buy the goods and if they are cheaper in other states for sure they will choose to buy the taxable items through the phone, or mail.

Although the law required to the final buyer to report the goods that are subject to the use tax, in practice that is almost impossible to achieve by the government.

Contrary to the Valued Added Tax in México, they will be no general tax in all the activities, in the United States it could be a tax on the activities but it will be according to the federal law and it is usually referred to the excise tax.

11. States with the highest Sales Tax

We will analyze the two states with the highest Sales Tax in order to see how much their revenue from the Sales and Use tax is, and which is their principal economy development.

The state with the highest Sales Tax is the state of Tennessee, which Sales tax rate on food is 5%. And all other tangible personal property, unless specifically exempted, is 7%¹². Also and State Single Article Rates of 2.75% is applied on any single item sold in excess of \$1,600 but not more than \$3,200.

¹² <http://www.tn.gov/revenue/tntaxes/salesanduse.shtml>

As we commented before, in reference to the Use tax, the State applies the same amount as the Sales tax rate; in the case of the Local Tax, this is set by the local government; Up to September 24th of 2012, the place with the lower local tax is Shady Valley and Trade with a 1.50% rate, from the rest of the cities the maximum rate is 2.75%.

About statistics, the Tennessee Department of Revenue, publishes a comparative statement of collected revenues¹³, which shows that in the fiscal year 2013 on the month of July, the Sales & Use tax revenue was \$US 4,671,501, 691.83, in comparison with the fiscal year 2014 for the month of February, which Sales & Use tax revenue was \$US 4,827,540,318.81.

We have to point out that the state is on the place 17 with major population of the United States, the income tax not apply to salaries and wages and its major industries include tourism, agriculture and manufacturing.

The second State with the highest Sales tax rate is Arkansas, where the tax rate is 6.5%. And as the previous State, depending on local taxes, the rate can be from 0.5% for some places like Beedeville or Scarcy city or as high as 3 % in Clarendon or Bryant¹⁴

¹³ <http://www.tn.gov/revenue/statistics/index.shtml>

¹⁴ <http://www.dfa.arkansas.gov/offices/exciseTax/salesanduse/Pages/StateTaxRates.aspx>

Statistics from the Arkansas Department of Finance and Administration¹⁵ shows that on January of Fiscal Year 2013, the State of Arkansas collect from the Sales tax, the amount of US \$135,653,850 wherein the total for the Fiscal Year of 2013 was US \$1,808,394,306; in the case of the Use tax, on January of Fiscal Year 2013, the State of Arkansas collect the amount of US \$30,826,281 wherein the total for the Fiscal Year of 2013 was US 370,279,593.

For the Fiscal year 2014, the total of the Sales tax collection during the month of January was US \$ 150,193,954 and the total from Use tax during the month of January for the Fiscal year 2014 was US \$30,758,953.

12.State with the lowest Sales Tax in the United States

We will analyze the state with the Lowest Sales Tax in order to see why is allowed to have this measure without hurt its economy development and we will analyze one state with no Sales tax to see how it works one state without the referred tax.

On a report published on January 14 of 2014, for the Weldon Cooper Center for Public Service¹⁶, the University of Virginia expresses that the State of Virginia is

¹⁵ <http://www.dfa.arkansas.gov/offices/exciseTax/salesanduse/Pages/default.aspx>

¹⁶ <http://www.coopercenter.org/%5Bog-alias%5D/publications/virginia-local-tax-rates-2013>

the state of United States with the lowest Sales tax, that it has one of the simplest local government structures in the United States, that there are 95 counties, 39 independent cities, 190 incorporated towns and close to 200 authorities and special districts.

Also the report point out that the state of Virginia have 511 local governmental units, which are equivalent to a population per unit of 15,066, far more than the national average of 3,367, also that Virginia ranks third among the states in population per unit with only Hawaii (67,229) and Maryland (21,949) having more; Virginia operates under the so-called Dillon Rule that reserves local government taxing powers to the state. This imposes a degree of uniformity in local taxation.

The state of Virginia apply a retail sales tax of 0.7%and for this state, nearly all local tax revenue comes from the real property tax, which during the Fiscal Year of 2012, reflected the dominant source, giving revenues for 62.4% of total city-county tax.

One important point that we have to focus on is the fact that county excise taxes on hotel and motel room rental have tax rate restrictions imposed by the state, county restaurant meals taxes must be approved in a voter referendum, tobacco taxes are permitted in only two counties, and county admissions taxes are subject to many restrictions as we can see with the state of Hawaii that is the opposite

In the state of Virginia is applied a Retail Sales Tax for the privilege of making retail sales in Virginia, a seller is subject to a sales tax imposed on gross receipts from retail sales of tangible personal property. The seller collects the tax from the customer by separately stating the amount of the tax and adding it to the sales price or charge. Retail sales are defined as sales to a consumer or to any person for any purpose other than for resale.¹⁷

From July 1, 2013, the Retail Sales and Use Tax rate for most purchases increased to 5.3 percent statewide (4.3 percent state tax and 1 percent local tax). In addition to the statewide increase, there is a 0.7 percent increase in the localities that make up the Northern Virginia and Hampton Roads regions¹⁸

During the fiscal year of 2012, the revenue that the state collect from the State sales, use, and vending was \$3,121,503,000 in comparison with the Fiscal Year 2013, which was \$3,219,798,000.

¹⁷ <http://www.tax.virginia.gov/site.cfm?alias=acceleratedsalestax>

¹⁸ idem

13. State with no Sales Tax in the United States

In the first case we have the state of Hawaii, which contemplate no Sales tax, we need to point out that in this state, the services of health care and education are provided directly by the state, and this doesn't happen in all other states.

As it is common in a touristic place, tourism is and has been the largest industry in the state, and this is how the Sales tax is compensated, because tourists have an important role in contribute to the tax by paying the General Excise Tax.

The General Excise Tax (GET) is Hawaii's largest source of revenue and accounts for nearly half of the total tax collections. Revenue from the GET grew from \$2.70 billion in FY 2012 to \$2.94 billion in FY 2013, an increase of 9.1%. Unlike the sales taxes imposed by many States and localities, the GET is imposed on the business rather than on the customer. While other States seek revenue by increasing the sales tax rate or widening the basis for taxation, the GET is imposed on a broad base of business activity including services, and has remained at the low rate of 4% since July 1, 1965¹⁹

¹⁹ http://tax.hawaii.gov/?s=tax+rates&search_all=1

Another point that support the measure or not apply the Sales tax is the Use tax, as we refer before, this helps to get some revenue to the state for the merchandise that enters to Hawaii., the Use tax is imposed on tangible personal property, contracting or services from anywhere outside of Hawaii, also no Use tax will be imposed if the property is imported for sale at the wholesale level.

The Use tax is imposed at the rate of 4% on almost all tangible items with the exceptions of personal property which will be sold at the retail level, leased or rented, incorporated by manufacture into a finished or saleable product in such form that it remains perceptible to the senses and which subsequently is sold at the retail level, or incorporated by a contractor into a finished work or project in such a form that it remains perceptible to the senses, this exceptions will subject of the rate of 0.5% of the value of the merchandise²⁰

The statistics of Hawaii shows that during the census of 2007,²¹ the total firms on the state were \$120,374, the Merchant wholesaler sales were \$8,894,672 (\$1000), and Retail sales were \$17,611,851 (\$1000).

For the Fiscal Year 2013, the amount collected by the State of Hawaii from the General Excise & Use was \$2,944,487 (\$1000) representing 45.1% of the total

²⁰ http://tax.hawaii.gov/stats/a9_2trc/

²¹ <http://quickfacts.census.gov/qfd/states/15000.html>

income from the taxes, in comparison with the Fiscal Year 2012 that was \$45.01 2,697,951 that represented 44.93% of the total income from the taxes.

14. Conclusion

As we saw in the present paper, there is and will always be a necessity of the state to collect money, the fastest way to do this is through the Valued Added Tax, in the case of Mexico, and the Sales tax, in the case of the United States. This is because the taxes will apply to a portion of the population, and it will be only for those who want to pay it, otherwise they can choose not to buy the good or service.

In that context, it is easy for the final consumer to decide if he or she is willing to pay the tax. The reality is that everyone needs to buy goods and people will only realize how much of their income they need to spend in order to satisfy their needs when they buy the goods.

So in the end, everything comes down to wealth, those who earn more will be able to spend a much larger part of their incomes, without sacrificing any of their needs, than the middle and low-income families. Here is where the state as the supreme entity should look forward to create better policies.

We observed that in the case of the United States, the Constitution gives power to the states to determine their taxes as long as they don't contravene with the Constitution. This is the case with the Sales Tax and Use Tax.

Thanks to that, the states have the possibility to enact preferential tax rates for those who are not able to support the burden of the tax, to lower the rate for people over a certain age, or to determine the income level that will benefit from a lower tax rate etc.

In that order of ideas, we can appreciate that both tax systems are designed to gain revenue from sales and services. Even for states that do not apply the Sales Tax in their territory, we saw that they are still obtaining revenue because they charge more taxes to other things. For instance, they can raise the Income tax, Use tax or raise the tax for their major activities.

In the case of the United States Tax System, we find that in order for the state to gain revenue from the goods that people buy through the mail or internet, the final buyers have to declare the goods that they bought from outside of the state and pay the respective Use Tax, which in reality the costumers do not do in order to save money.

In the case of the Mexican tax system, it recognizes the sovereignty of the country in its constitution and allows the states to organize their own laws when the constitution determines no specific organization for them. In this case it varies from the United States tax system because the Valued Added Tax is general for all the states that form México. The states don't have any power to determine a lower Valued Added Tax for their territory.

In both systems, the revenues that the government will collect from the Sales Tax or Valued Added Tax are usually calculate as a percentage of the price of the item. In some cases, the United States government will use the Excise Tax instead of the Sales Tax.

In the case of México, the States will be able to apply a specific tax to the goods, those taxes will be contemplate in the Ley de Ingresos (Revenue Act) of each state.

Regarding to the taxes on the hydrocarbons, water, and energy topics, in the United States, they are regulate by the Excise Taxes. In the Mexican Tax System, they will be regulate by the Mexican Constitution.

Another important distinction, is the fact that nothing stops people in the United States to change their address in order to seek a better place that offers a low cost life with less tax burden, of course we need to say that this commonly implies less services or less quality of life, because without the revenue from taxes, it could be a lack of money in order to realize the projects without recurring to the debt.

We need to realize that any measure that we take in order to benefit people, has to keep all the time the willing to not create an excess burden, we need to seek for an alternatively way to collect the taxes, but of course, this will be all empirical that cannot be answered on the basis of theory alone.

So far we have been exposed the main points about the possibility of the government to regulate the Sales and Use tax in their territory, but let's take the background ideas that we could apply with México; In the first point, we need to study the possibility to allow the states to regulate their Valued Added Tax in order to boost their own economy, let them see what are their strengths and weaknesses and determine which is the better way to increase their resources.

Here we have to make the distinction about that in the Mexican Tax System. The revenue from the Valued Added Tax is collected by the states, and goes to the Federation, then is distributed to states based on their needs; at this point, we will

found that there will be no major effort to collect too much revenue because at the end, probably the money that they collected, will not return to the state who collected it.

México tends to support the poorest states (and of course, it will imply revenues from the taxes), in that case, the states will get money for being poor, thus, they will have an incentive to remain poor. In order to change that, we can, recognize the effort that the states do collecting the tax and even more, encourage the states to develop and raise their productivity.

On the second hand, we have a problem with the claims or refunds of the Valued Added Tax, because the enterprises sometimes claim for money that they didn't spend producing the good or buying the necessary goods to transform the product. Giving as a result that the government have to take money from other tax payers to pay those enterprises, resulting at the end as a deficit for the government.

About that problem, we have to consider whether it is a good idea to eliminate the fact to give back the money to the tax payers, and instead, use the money that they have the right to receive, to pay another taxes.

Now with the fiscal reforms, the fiscal authority will be able to have a better knowledge about the tax burdens of people, this possibility can allow the fiscal authority to give exemptions or devolutions of the Valued Added Tax to people who shows that during the fiscal year had a lower income than the minimum wage, and spent most of their income in order to pay its expenses or the expenses of their families. Of course those claims will be punishable by law if they are not honest in their declarations.

Another possibility could be that if so far the wages of a worker are subject to an income tax, why not to do the same with the sales tax?, this is, see how much a person spends during all year and then put a tax on their expenses.

We have to keep in mind all the time that if the case of lowering the Valued Added Tax is viable, it will have a huge impact in the sales, but because of that, it could be a good opportunity to promote national products and encourage business productivity.

Finally, we must consider that every change requires time, and we will not be able to see the changes immediately, we have to give one step at the time, |