

Serial Taxation

by

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caveat lector

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The economic process presented in this essay has been simplified and idealized so that the results illustrated by it will be easier to understand. However, the results apply just as well to larger and more complex real-world transactions.

Suppose that you're paid \$10 for doing a job. If you pay a 10% income tax on the \$10, then you'll have \$9 remaining. If you spend the \$9 in a store and pay a 5% sales tax, then you'll spend only \$8.55 because 45¢ was diverted to the sales tax. If the merchant pays a 10% income tax on the transaction, then he'll have only \$7.70 left from your purchase. If he uses the \$7.70 to pay an employee and diverts 20% of it to the various taxes associated with having an employee, then he'll pay the employee only \$6.16. The employee will have to pay a 10% income tax, leaving him with \$5.54. When he spends the \$5.54 and pays a 5% sales tax, he'll be able to spend only \$5.26 because the other 5% went to the sales tax.

It's easier to understand when it's viewed in tabular form.

<u>Funds Available Before Payment of Tax</u>	<u>Tax Deducted</u>	<u>Funds Available After Payment of Tax</u>
\$10 that you earned on a job	10% income tax that you paid = \$1	\$9 remaining for you to spend
\$9 that you spent in a store	5% sales tax that you paid in the store = 45¢	\$8.55 that you actually used for your purchase
\$8.55 received by the merchant	10% income tax paid by the merchant ≈ 85¢	\$7.70 remaining for the merchant to spend
\$7.70 used to pay an employee	20% diverted to associated taxes and fees = \$1.54	\$6.16 actually paid to the employee
\$6.16 available for the employee to spend	10% income tax paid by employee ≈ 62¢	\$5.54 remaining for the employee to spend
\$5.54 spent by the employee	5% sales tax paid by the employee ≈ 28¢	\$5.26 actually used for the employee's purchase

The reduction in the usable residue of the original \$10 might never reach zero in theory but it will be quickly reduced to a useless amount. Is it any wonder that people can't live within their incomes and are forced instead to live on credit?

When you consider that all funds are taxed at least once per transaction, it's amazing that anybody has any funds at all. With such a large proportion of our funds being siphoned away as taxes, one has to wonder how replacement funds enter the economy. I suggest that you read my essay, *They Can Fool Too Many of the People Too Much of the Time*.

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