How Tariffs Affect Incomes and Revenues

by L. Anne Emerson

Business income is called "revenue." Here, I mean the total take from sales, or the price of the product multiplied by the quantity sold. Ten items sold at $5 each will bring a *revenue* of $50 (or 10 x $5).

A tariff is a sales tax on items purchased from foreign nations. Sales taxes are regressive. Or, the burden of the tax falls more heavily on lower income individuals and smaller businesses than on higher-income individuals and larger businesses. (The supplier may lose some sales, as well, if a sales tax is imposed.)

Here is how a sales tax puts a heavier burden on someone with a lower income than on someone with a higher income (or revenue). Let us say that we are buying a computer for $2,000. Sales tax is 6%, or $120. Our income is $3,000 per month. We will probably have saved our money, in order to buy the computer; or we will need to borrow. If we save, we forgo something else. If we borrow, we pay interest.

Now, let us say we are buying an identical computer for $2,000 but now our income is $10,000 per month. Sales tax is still 6%, or $120. This purchase takes a bite out of our savings, or adds to our debt, but it is not as difficult for someone making $10,000 per month as for someone earning $3,000 per month.

Then, let us say we are a billionaire. We may hardly notice that $2,000 for the computer, or that $120 for the sales tax.

Usually, the sales tax on the computer is the same for each purchaser. It follows that the tax, say 6%, is harder for the lower-income person to afford than for the higher-income person to afford. It takes a larger share of a lower income, or revenue. Then, we say that the burden of the tax is heavier for lower-income people or businesses, and that the tax is "regressive."

A sales tax on foreign goods – a tariff – has a similar impact, but the foreign supplier pays a portion of the tax. The portion paid by the domestic consumer versus the portion paid by the foreign supplier depends on how badly each of them needs the transaction. If the foreign supplier easily sells elsewhere, then the domestic consumer pays more of the tariff. In either case, the tax (or tariff) is regressive for both buyer and seller. (There are, of course, other ways for the government to get tax money.)