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THE NATURE AND STRUCTURE OF SALES TAXATION

JOHN F. DUE*

Sales taxation has, in the course of 25 years, become the chief single source of state tax revenue, now yielding about $2.5 billion or 21 per cent of total state tax revenue in the 1955 fiscal year.[1] In the 31 states using the tax,[2] it yields approximately one third of state tax revenues, with yields of over 40 per cent in Washington, Georgia, Michigan, and Missouri. The tax has also been growing in importance at the local level, now yielding about $400 million, the bulk of this being obtained by a relatively few large cities. The federal government has never employed a general sales tax, despite considerable pressure for the tax at various times. Such taxes are used extensively by other national governments in various parts of the world—but in most of these countries there is no similar use at lower levels of government.

The Concept of a Sales Tax

The term *sales tax* is generally used with reference to a tax imposed upon the sale, the gross receipts from the sale, or the purchase[3] of all or a wide range of commodities, other than fractional-rate taxes on gross receipts levied in the form of business occupation taxes. These latter taxes may in fact have the same economic effects and pattern of burden distribution as sales taxes, but it is customary to regard them as a form of business taxation rather than as sales taxes. The line between these and sales taxes is not entirely well defined, and a few states couple the two forms of tax together in the same tax law, but most of the taxes in present use fall clearly into one category or the other.

The sales tax, as defined, is classified as a form of consumption tax, under the presumption that the burden of the tax is typically shifted forward to the purchasers of the products, and thus the final burden of the tax is distributed in proportion to consumption ex-

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1. Excluding the yield of the Indiana gross income tax and the gross receipts taxes (at fractional rates) in Washington and West Virginia, which are not regarded as sales taxes under the usual definitions. The yields of these levies, however, are frequently included in totals of state sales tax collections; when they are so included, the total yield is $2.6 billion, or 23% of total state tax collections.

2. As of December 31, 1955. One additional state, Pennsylvania, imposed a sales tax during the 1954-55 fiscal year, but allowed it to expire August 31, 1955. In March, 1956, a new retail sales tax, at a 3 per cent rate, limited to specified groups of commodities, was enacted.

3. None of the state sales taxes are levied upon the purchase, as such, but all of the Canadian provincial sales taxes are imposed in this manner, for constitutional reasons.

penditures. It is recognized, of course, that the shifting of the tax is by no means perfect or complete in all cases, but the assumption is generally regarded as a reasonably appropriate one under most circumstances.[4]

Sales taxes are distinguished from *excise taxes,* the other principal form of consumption tax, by their greater coverage. The term *excise tax* is usually restricted to levies imposed upon the sale of particular commodities or closely related groups of commodities.[5] A very widespread excise system would of course closely resemble a general sales tax, but as a matter of fact in the United States, and particularly at the state level, the excises are limited in scope.

The Forms of Sales Taxes

Sales taxes can be classified into two general types on the basis of whether or not commodities are subject to the tax more than once as they pass through production and distribution channels. The *multiple-stage* form of sales tax is applied to transactions at more than one stage in production and distribution channels, and, in the most complete version, to those at all stages. Thus the sales tax in West Germany applies to all transactions in all commodities (apart from a limited number of exempt categories). Similar taxes are employed in Austria, Italy, Luxenburg, the Netherlands, and Belgium.[6] These taxes are often known as turnover or transactions taxes. The basic objection to them is obvious: serious discrimination occurs against non-integrated business firms, and substantial incentive is given toward increased integration.

The *single stage* form of sales tax applies only once to each commodity as it passes through production and distribution channels. Single stage sales taxes may be imposed at any one of three possible levels:

a. The sale by the manufacturer. The manufacturers' sales tax has been employed in Canada for more than 30 years, and has been suggested for our federal government on a number of occasions by the National Association of Manufacturers and other groups.

b. The wholesale level, or more precisely, the last wholesale transaction, that is, the purchase by the retailer, whether from a manufacturer or wholesaler. The wholesale sales tax has been used in Australia and Switzerland for a number of years, and the British

4. In recent years some economists have advanced the thesis that general sales taxes are not borne by consumers but are reflected in lower incomes. This argument is based upon very restrictive assumptions, and does not appear to be of general significance. For the leading exponent of this point of view see ROLPH, THE THEORY OF FISCAL ECONOMICS cc. 6-7 (1954).

5. The term "general excise tax" is sometimes applied to sales taxes; for example, the NAM and other groups refer to proposed federal manufacturers' sales taxes as "general manufacturers excise taxes."

6. Retail sales are not taxable in the Netherlands and Belgium.

Purchase Tax, a sales tax of limited coverage and extremely high, differentiated rates, is imposed at the wholesale level.

c. Sales at retail. The retail sales tax is the familiar form in the United States, as all of the state sales taxes, strictly defined, take this form. Some of the states[7] supplement their retail sales taxes with low rate gross receipts taxes on wholesalers, manufacturers, or both, and thus give the taxes the nominal appearance of multiple-stage turnover taxes. But the levies on the non-retail levels have only fractional rates, and are generally regarded as forms of business occupational levies used as a substitute for corporation income or capital stock taxes. Accordingly the tax structures are not usually considered to be true turnover taxes, but combinations of retail sales taxes with business occupation levies. The Indiana gross income tax, which applies to the gross receipts of all business firms in addition to wages and salaries and other individual incomes, is best regarded as a combination of business occupation taxes plus a low rate personal income tax.[8]

As contrasted to the multiple-stage taxes, the single stage form, regardless of the level at which it is imposed, has very significant advantages. The incentive toward integration is avoided, as well as the discrimination against small non-integrated businesses. The relative burden on consumer expenditures on various commodities is much less uneven; with the multiple-stage taxes the relative overall burden will depend upon the number of stages through which the commodity passes on the way from initial production to final consumption. Administration is in many respects simpler. There are fewer diverse types of firms from which to collect tax, and the complications which are typically introduced into multiple-stage taxes to avoid severe injury to certain groups of taxpayers are avoided.

As among the various forms of single stage taxes, the manufacturers' sales tax offers the one advantage of permitting collection from a relatively small number of taxpayers, with the bulk of the revenue coming from large firms. On the other hand, the retail form of sales tax avoids the tendency for the tax to pyramid, at least for temporary periods, through application of percentage markups by wholesalers and retailers to purchase prices which include tax elements; it insures a more uniform ratio of tax burden to consumption expenditures on various goods (assuming that the tax is shifted) and thus avoids the sort of discrimination which arises with the excises; and it avoids the very troublesome problem of insuring equity among various competing firms utilizing different distribution channels which arises with the manufacturers' sales tax. The latter tax tends to penalize the firms selling directly to retailers or con-

7. Washington, West Virginia, Mississippi, New Mexico, North Carolina.
8. This tax is, however, often included in lists of state sales taxes.

sumers at prices higher than those charged wholesalers by competing manufacturers, unless adjustment of price for tax purposes is made. Canadian experience has demonstrated very clearly the problems involved in making such adjustments. Finally, in the case of the states, the complications of interstate transactions make use of the retail level highly desirable, since relatively few retail sales are interstate in character compared to the number of such sales by manufacturers or wholesalers. A state cannot tax sales made by manufacturers (or wholesalers) for out-of-state delivery, and an attempt to collect tax on purchases by retailers from out-of-state wholesalers and manufacturers would be very troublesome.[9]

In recent years a new variety of sales tax which has some aspects of both single-stage and multiple-stage taxes has been developed, on the basis of a principle first suggested several decades ago. This is the value-added tax, now employed in France, and is the basis of the Michigan business receipts levy, usually regarded as a business occupation tax rather than a sales tax, but obviously closely related to the latter. Under the value-added principle, each firm is taxed on the value added by the firm's activities to the materials processed or commodities handled. Under the Michigan system each firm calculates the amount of value-added by subtracting from its gross receipts the amounts paid for materials and other commodities (other than equipment) purchased, as well as interest, rent, and taxes. The tax rate (now 6½ mills, except for public utilities) is applied to this figure of value-added. Under the French system, the firm does not directly calculate value-added, as such, but determines tax liability on its total sales and then subtracts tax borne on all of its purchases during the period.

As a sales tax, the value-added levy, if carried throughout production and distribution channels, would produce the same overall distribution of burden as a retail sales tax, since the sum of the values added at all production and distribution stages is equal to the retail selling price. If the value-added tax were confined to the manufacturing level (as is largely true in France) the net effect would be the same as that of a manufacturers' sales tax on finished products. The primary advantage offered by the value-added form is the spreading of the impact of the tax over a larger number of firms, rather than having it concentrated on one particular stage. This is an important advantage to many European countries, in which collection of high-rate taxes

9. In November, 1955, the Governor of Pennsylvania recommended to the legislature the enactment of a 3½% manufacturers sales tax, to replace the expired retail tax. The House approved the measure, but strenuous opposition arose from manufacturers and other groups in the state when the bill came before the Senate for discussion. After extended discussion the Senate finally rejected the measure. In March, 1956, the legislature reenacted a retail sales tax, at a 3 per cent rate, but limited it to specified groups of commodities.

on limited classes of firms is difficult, but it is of little real advantage in the United States. The Michigan tax has not typically been regarded as a sales tax, but as an occupational levy on business, a charge for the privilege of conducting business in the state.[10]

The Development of Sales Taxation in the United States

State sales taxation is primarily a product of the depression of the 'thirties, plus financial problems of the post-war years. The depression reduced state revenues sharply at the same time that it necessitated additional expenditures for relief and related purposes. The burden of the property tax and the financial difficulties of the local governments led to increased demands for the states to withdraw completely from the property tax field. The limited potentialities of other state taxes made the discovery of new state tax sources imperative, and experimentation with the sales tax quickly demonstrated that it would yield large sums of money at relatively low rates. The tax itself was suggested by the fractional-rate taxes on gross receipts which had been used for some years by several states in lieu of corporation income taxes or other forms of business taxes. By increasing the rate of the levy from a fractional figure to 2 or 3 per cent, and confining it to retailing, the states were able to obtain substantial yield with little difficulty. Credit for the first sales tax goes to Mississippi, which converted its business tax into a sales tax in 1932. Thirteen states followed suit in the year 1933 alone. Some of the early taxes were allowed to expire, but by 1937 the number using the tax had stabilized at twenty-two.[11]

For ten years no additional sales taxes were imposed. But in the post-war period, the trend toward introduction of the tax was renewed, as other tax sources proved to be inadequate to meet inflationary pressures on costs and the demand for additional services. Nine states established the tax during this period, but one of these, Pennsylvania, allowed its tax to lapse. Thus, as of December 31, 1955, thirty-one[12] states impose retail sales taxes, and Indiana uses a gross income tax, including a ½ per cent tax on retail sales. Other states are giving consideration to the levy, and the list of users is likely to grow. In the states using the tax, opposition has become almost nil. The traditional opponents of the tax—the retailers and labor unions—have become reconciled to it. The retailers find the tax to be little more than a nuisance once they become accustomed to it, and unions generally recognize today that it is the only feasible method by which the states can finance desired activities.

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10. See FIRMIN, THE MICHIGAN BUSINESS RECEIPTS (Mich. Univ. Bureau of Business Research 1953).
11. 23, if the Indiana gross income tax is included.
12. 32, if the Indiana tax is included.

The Present State Sales Taxes

In Table I, the general features of the present state sales tax structures are indicated in summary fashion. There is substantial uniformity among the various taxes (many having been copied from the taxes of other states), but certain differences should be noted:

1. The taxes vary in the extent to which services are included. The majority of the taxes apply to all or some public utility services, and about half apply to amusements. But only a few states extend their levies to other services. Twelve include rentals charged for hotel rooms and other transient accommodations, and five states—Arizona, Louisiana, Mississippi, New Mexico, and West Virginia—apply their taxes to a wider range of consumer services, such as dry cleaning, photography, pest control, repair work, etc. No states include domestic or professional service.

2. The extent to which exemptions of consumer goods are granted varies. By far the most important exemption, from the standpoint of revenue, is that of food, which is provided in eight states, five being ones which introduced the tax after 1945. This exemption, designed to lessen regressiveness of the tax, reduces revenue from 20 to 30 per cent. Restaurant meals are taxable in all states except two.

There has been an increasing tendency to exempt medicines, two states having added this exemption in 1955 to bring the total to six. Limited articles of clothing are exempted in three states, household fuel in three, soap in two. On the whole, however, the exemptions of items regarded as necessities are very limited. On the other hand, most states made the initial mistake of exempting liquor, tobacco, and gasoline from the tax, on the basis of the argument that they were subject to excises. Several have corrected this error in recent years. Any exemption of this type complicates the task of the retailers and the tax administrators and paves the way for evasion. If the combined rates of the sales and excise taxes are considered excessive, the adjustment should be made in the latter, not in the former.

3. There is some variation in the extent to which non-retail sales are subject to tax at low rates. Most of the taxes are strictly retail sales taxes limited to the final sale for use or consumption and do not reach sales for resale made by manufacturers or wholesalers at all. (Retail sales made by manufacturers or wholesalers are of course subject to tax.) However, several states couple with their retail sales taxes low rate taxes on manufacturing and wholesaling, and one state—Indiana—taxes retail sales only as a part of a general gross income tax.

Three states include the levies on wholesaling and manufacturing within the sales tax laws. Mississippi taxes wholesalers at the rate of ⅛ per cent, North Carolina does so at the rate of 1/20 per

cent, and New Mexico at the rate of 1/8, plus a 1/4 per cent rate on manufacturing. In these states the gross receipts levy is not applied to retailers. Washington and West Virginia levy separate gross receipts taxes by legislation distinct from their retail sales taxes, applying them to retailers as well as to other types of business. The rates range from 1/4 to 1/2 per cent, with higher rates on some types of business. Michigan imposes a separate business activities levy on the basis of value-added, at a 6 1/2 mill rate.

The Indiana gross income tax law applies a 1/2 per cent tax rate to gross receipts of retailers, a 1/4 per cent rate to wholesalers and manufacturers, and a 1 per cent rate to all other income, including wages and salaries of individuals. The separately-imposed business taxes on gross receipts and related bases are shown in Table II.

5. Some variation is found in the treatment of producers goods—commodities purchased by business firms for use in the business.[13] In all states, either by provision of the law or by interpretation, sales of materials, parts, or semi-finished goods which become physical ingredients or component parts of other goods are regarded as sales for resale, and thus are not taxable. However, universally, sales of other producers goods, such as machinery and equipment, supplies, fuel, building materials, etc., are interpreted to be retail sales, and therefore subject to tax unless specifically exempted. Several states provide no such exemptions, and thus tax final sales of all producers goods except those excluded by the physical ingredient rule. Most states provide some exemptions, although in only a few states is the exclusion of producers goods extensive.

a. Sales of livestock feed, seed for farm purposes, and fertilizer have been specifically exempted in some states; in most others they have been held to be sales for resale (under the physical ingredient rule) and thus not taxable.

b. Sales of goods which are directly consumed in production processes, although not becoming physical ingredients, have been exempted by four states directly, and are exempt in three others which have broad exemptions of major categories of producers goods (Ohio, Michigan, West Virginia).

c. Sales of industrial machinery, purchased for direct use in processing, are exempt from the retail sales tax in eight states. One additional state, Florida, exempts purchases of machinery in excess of $10,000 in any six months period.

d. Agricultural equipment of various types is exempt in five states, in three cases by specific exemption, in two others by inclusion within a broader exemption.

e. Significant categories of other producers goods are exempt in

13. See Cline, *Sales Tax Exemption of Producer Goods*, PROC. NAT'L TAX ASS'N 618-31 (45th Ann. Conf. 1952).

only three states, which have made a serious attempt to confine the tax to consumption goods so far as is possible. The policies followed by these states differ somewhat:

(1) Ohio exempts all purchases of goods for direct use in production in a number of major types of business: manufacturing and related activities, farming of all types, mining, oil production, commercial fishing, public utilities, commercial laundries, and retailing. The exemption is confined to articles "directly used" in production—a limitation which has given rise to numerous administrative problems.

(2) Michigan exempts all goods purchased for use in industrial processing and agriculture. In practice the exemption is limited primarily to materials, consumables, and machinery, and thus is less broad than that of Ohio, and, furthermore, does not apply to such fields as retailing.

(3) West Virginia specifically exempts from its retail sales tax all producers goods purchased by firms in six categories: contracting, manufacturing, production of natural resources, transportation, transmission of electricity, and communications, and, by interpretation of the act, excludes goods purchased for use by retailers. This is by far the broadest exemption of producers goods to be found in any state, since it applies to all purchases by the firms in the industries involved, not merely to goods purchased by them for use "directly" in production. Sales of all firms in West Virginia are of course subject to the gross receipts tax levied as a supplement to the retail sales tax.

6. The taxes differ with respect to the precise legal base of the tax, falling into two rather clearly defined classes. About half of the taxes are technically imposed upon the *sale* to the consumer, with legal liability upon the firm selling at retail for payment of the tax to the state, and a requirement that the firm in turn collect the amount of the tax from the customer, quoting the tax as a separate element from the price of the article. The other group of taxes is levied technically upon the retailer as a charge for the privilege of doing business at retail. However, seven of the states with this form of tax require shifting to the customer, with separate quotation, and five additional require only separate quotation. Only the Illinois law contains no provisions at all relating to shifting. Nevertheless in Illinois, separate quotation of tax and shifting to the customer is almost universal. Under the Indiana gross income tax, however, such a policy is typically not followed, the ½ per cent tax on retail sales merely being treated by the retailers in the same manner as other elements in their overhead for price setting purposes.

It should be pointed out that provisions in the law relating to shifting of the tax are not likely to be of great significance. A tax levied on

sales will tend to shift forward in the form of higher prices whether required by law or not, and retailers who seek to absorb the tax for competitive reasons can easily do so despite mandatory shifting provisions, except in some cases on price-maintained articles. The shifting provisions, however, may have some influence by increasing uniformity of action among retailers, and have the merit of making clear the intent of the legislative bodies with respect to the impact of the burden of the tax.

Overall Evaluation of the State Sales Taxes

The states turned to the field of sales taxation not out of general acceptance of the philosophy that these taxes represent a form of taxation superior to other types, but as a last resort—as a means of obtaining substantial sums of money which could not feasibly be obtained from other sources, under given political and economic circumstances. Property taxation must be left to the local governments, which on the whole are even more hard pressed for revenue; the high federal income taxes and the fear of driving industry and population out of the state restrict the use of income taxation at the state level. The gasoline and motor vehicle levies are barely able to support growing demands for highway improvement. Liquor, tobacco, and other excise taxes are discriminatory, and of limited yield possibilities.

The primary argument used against the sales taxes was that of regressiveness. But the significance of this argument has been weakened by the use, since 1940, of high and steeply progressive federal income taxes; usually accepted standards of equity do not require that all taxes be progressive or even proportional, but merely that the overall tax system as a whole be progressive. It is true, of course, that the sales tax is somewhat capricious in its effects, penalizing all persons whose circumstances compel them to spend high percentages of their incomes on taxable goods. But nevertheless, so long as the rates are moderately low, the injury to such groups—and particularly to low income groups with fixed incomes, such as old people—is not too serious. The use of the expenditure basis for imposition of a part of the overall tax burden does lessen the dangers of adverse economic effects arising out of highly progressive levies. But the greatest justification for state use of sales taxation is the practical difficulty of finding adequate revenues from other sources—given the federal tax structure.

If the sales taxes are to gain necessary revenue for the states in a fashion which will minimize adverse economic effects and inequities, it is necessary that the structures of the taxes be established with this goal in mind. Two requirements are of particular importance: uniformity of burden on consumer expenditures for all purposes except those deliberately excluded, and uniformity of treatment of business

firms utilizing diverse distribution channels and methods of production.

If the burden of the tax is not uniform on all consumption expenditures, the same discriminatory effects are encountered as those arising with excise taxes: persons having relatively high preference for the heavily taxed articles will suffer a heavy burden of tax, and those preferring untaxed or lightly taxed items will be favored. Sales of the latter will tend to increase and those of the former will fall. However, exclusion from tax of certain categories can be justified on social or other grounds, on the basis of the general argument that expenditures for certain purposes are not suitable bases for taxation. The case for exclusion is particularly strong in the case of medical and hospital care, and substantial in the case of rentals and food.

Heavier tax impact on some types of firms compared to others is not only discriminatory with respect to the owners of the high-tax firms, since complete shifting of the tax will be virtually impossible, but will also induce non-economic readjustments in methods of doing business, with consequent loss in efficiency.

These two requirements will be fully attained if (1) the sales tax is levied at the retail level, (2) the tax is shifted in its entirety to the consumers of the products, and (3) the tax is levied upon all sales for consumption purposes, and no others. If the tax is levied prior to the retail level, the tax burden will not constitute a uniform percentage of consumption expenditures on different goods because wholesale and retail margins vary. Non-retail taxes will likewise tend to pyramid, and burden the consumers with amounts in excess of the tax. If the tax is not shifted fully to the consumers, a portion of the burden will rest in an inequitable fashion upon the owners of the business firms or other factor owners. If the tax is not levied on all consumption goods, discrimination results in favor of the consumers of the untaxed items. If the tax applies to the sale of any producers goods, the final tax burden will no longer be uniform on various consumer expenditures, pyramiding of the tax will occur, and some methods of production will be discriminated against compared to others.

Unfortunately, however, it is possible neither to include all consumption purchases nor to exclude all sales of producers goods, at least without creating extremely troublesome administrative problems. With respect to the inclusiveness of the coverage of consumption goods, two problems arise:

1. It is not feasible to tax goods produced by persons for their own use, yet these constitute a portion of their consumption. Farm produce used by the farmer himself is an example. But this source of escape is not a serious one.

2. Many expenditures on services cannot feasibly be included within the scope of the tax. In some instances such as medical care and education there are specific social justifications for excluding the service expenditures. Exclusion of expenditures for housing can likewise be justified on this basis, and also because of the difficulties of applying the tax to owner-occupied housing facilities. But some other types of service expenditures which should logically be taxed must be excluded for purely administrative reasons; it is not feasible to reach services, such as the work of personal servants, not performed by established business enterprises.

With respect to exclusion of sales of goods for business use, complete exclusion of such sales does not appear to be feasible; that is, in practice the tax cannot be confined solely to sales for consumption purposes. Many commodities, such as automobiles, are used for both production and consumption purposes, often by the same persons. If all commodities which are utilized as producers goods in any instances are exempted completely (regardless of use in particular cases), numerous consumer purchases will escape tax. If on the other hand all purchases by firms for business use are exempted on a basis conditional upon use, the task of checking upon actual use is a very difficult one in many instances. Small firms will buy tax-free under license goods which the owners actually employ for consumption purposes.

Despite the difficulties of excluding all purchasers of producers goods from tax, it is possible to exclude major categories. If certain classes of goods are virtually never used for consumption purposes, outright exemption is possible. If certain commodities are used for both purposes but are purchased in large quantities in easily identifiable transactions for business purposes, conditional exemption based on use, as now applied to materials, is feasible. The impossibility of attaining a perfect solution is no argument against attempting to exclude as broad a range of producers goods as is possible without creating serious administrative problems.

Review of the present state sales taxes suggests that substantial reform of the structures would in many cases be desirable. Many of the taxes were introduced hastily, with little careful thought given to the precise intent—beyond that of revenue—and many of them have never been overhauled. Two major defects can be indicated:

1. The coverage with respect to services is unnecessarily restricted. While all services cannot justifiably be included within the scope of the taxes, the coverage could be greater than it now is in most states. A number of the laws apply only to tangible personal property —and thus not only lose revenue unnecessarily, but create discrimination among various consumers, and some additional administrative

problems. Many consumer services, such as repair work, are rendered in conjunction with the sale of goods, and the present treatment requires complex and administratively troublesome rules for separating the taxable and nontaxable portions of the transactions. It is likely that the consumption of many services is progressive relative to income, and thus inclusion of them within the scope of the tax would lessen the overall regressiveness.

2. The taxes apply in most states to an excessively wide range of producers goods, and thus give rise to multiple taxation and pyramiding, place a tax penalty upon new capital investment, and discriminate against those industries—and the consumers of the products thereof—which have relatively large purchases of taxable producers goods per dollar of output of final product. As suggested above, it is impossible to exclude all types of producers goods, at least on the basis of available techniques, without excessive evasion and administrative complications. But major classes—ones which account for a large portion of total expenditures by business firms on producers goods—can be excluded without great difficulty. Industrial machinery is the most important class which can feasibly be excluded (in addition, of course, to materials, which are already tax free).

Local Sales Taxes

Municipal sales taxes have been introduced in a number of cities, for the most part, except in the cases of New York City and New Orleans, since 1945. Pressure of increasing expenditures in the face of relatively rigid property tax yields has been the primary factor encouraging the imposition of these taxes.

From the standpoint of yield, the New York City sales tax is the most important, yielding over $300 million annually, out of a total yield of all municipal sales taxes of $389 million (1954). Sales taxes are also used by several other cities and counties in New York state. The most widespread use of sales taxation at the local level is to be found in California, in which 188 cities (out of a total of 318) impose the tax, with about one fourth at ½ per cent rates, and about three fourths at 1 per cent figures. These California taxes are collected by the municipalities themselves, with consequent duplicating administration and troublesome compliance tasks for the retailers. In addition, the taxes have had some effect in driving shoppers and stores outside the city limits. As a consequence of the difficulties, the legislature in 1955 authorized the counties to levy 1 per cent sales taxes, provided that they levy on the same base as that of the state tax and contract for state collection; city sales taxes will be eligible for credit by the retailers against county tax liability, provided that (1) the city rate is 1 per cent, (2) the city tax is levied on the same base as the state tax, and (3) the city contracts for

state collection. If this reform works out properly, duplicating administration will be eliminated, compliance problems for the retailers greatly simplified, and uniformity of tax rate obtained throughout the state (if all counties impose the tax).

Municipal sales taxes are also widely used in the state of Illinois. Illinois has permitted cities to impose a ½ per cent rate since 1947, but no city had secured the necessary approval of the voters—a prerequisite for imposing the tax. In 1955 this requirement was removed, and within six months, 617 cities and towns had imposed the levy. Collection is in the hands of the state. Municipal sales taxes with state collection are likewise authorized in Mississippi, and are used by several cities. New Mexico enacted a similar law in 1955. Louisiana, Alabama and Virginia also permit municipal use, but with local collection (Virginia having no state sales tax).

On the whole, the municipality is too small a unit to operate sales taxes satisfactorily without tending to drive business activity out into fringe areas. Furthermore, duplication of state and municipal administration is not only wasteful but a source of unnecessary cost and nuisance for the retailers. State collection of local taxes avoids the latter problem but not the one of driving business outside the city limits, unless some system comparable to the new California plan is adopted. On the whole, if the localities must obtain revenue from the sales tax, sharing of a state levy is the most feasible solution.

Table I
STATE RETAIL SALES TAXES
DECEMBER 31, 1955

State	Year Sales Tax Introduced	Yield 1955 Fiscal Year (thousands of dollars)	Sales Tax Yield as Percentage of State Tax Collections	Tax Rate January 1, 1956 (per cent)	Rate on Gross Receipts of Non-Retail Businesses (per cent)	Coverage of Services A: Amusements PU: Public Utility TR: Transient rentals	Major Exemptions of Consumption Goods Med: Medicines Clo: Clothing	Major Exclusions of Producers' Goods in Addition to Materials and Parts Becoming Physical Ingredients[9]
Alabama	1936	58,862	36.1	3	....	A, TR	....	Industrial machinery, fuel.
Arizona	1933	27,225	34.0	2	....	A, PU, TR, etc.	....	....
Arkansas	1935	30,154	28.1	2	....	A, PU, TR	....	....
California	1933	490,992	36.8	3	....	none	Food	....
Colorado	1935	30,982	28.7	2	....	PU	....	Fuel.
Connecticut	1947	59,377	34.2	3[13]	....	none	Food, med., some clo.	Consumables,[10] fuel.
Florida	1949	74,027	25.2	3	....	A, TR	Food, med., some clo.	Farm machinery, fuel.
Georgia	1951	107,044	45.4	3	....	A, PU, TR	....	Consumables.
Illinois	1933	205,532	37.2	2½	....	PU (3%)	....	....
Iowa	1933	65,666	33.2	2½	....	A, PU	....	Fuel.
Kansas	1937	50,506	34.9	2	....	A, PU	....	Fuel.
Louisiana	1936[1]	64,811	21.4	2	....	A, TR, etc.[4]	....	....
Maine	1951	14,475	24.6	2	....	PU	Food, med.	Consumables.
Maryland	1947[2]	34,893	17.5	2	....	PU	Food, med.	Fuel.
Michigan	1933	301,161	46.6	3	See Table II	PU	....	Cons., fuel, indus. & agric. mach.
Mississippi	1932	37,870	30.3	3	⅛%-Wh, etc.	A, PU, TR, etc.[5]	....	Industrial machinery.
Missouri	1934	92,384	40.9	2	....	A, PU	....	....
Nevada	1955	....	....	2	....	none	....	Fuel.
New Mexico	1933	27,778	34.6	2	¼%-Mfr; ⅛%-Wh,etc.	A, PU, etc.[5]	....	Coal, farm implements.
North Carolina	1935	58,355	19.0	3	1/20%-Wh.	A, TR	Food	Coal, some indus. machinery.
North Dakota	1935	13,055	28.4	2	....	A, PU	Med.	....
Ohio	1934	201,070	34.4	3	....	none	Food	All goods used directly in prod.[11]
Oklahoma	1933	40,249	22.0	2	....	A, PU, TR, etc.[7]	....	Industrial machinery.
Pennsylvania	1954[3]	62,501	9.9	....	........not in	operation Jan. 1, 1956	....	....
Rhode Island	1947	13,951	23.8	2	....	PU	Food, med.	Fuel.
South Carolina	1951	46,649	29.7	3	....	TR	....	Indus. and agric. machinery.
South Dakota	1933	12,762	31.6	3	....	A, PU	....	....
Tennessee	1947	55,096	26.9	3	....	TR	....	Consumables.
Utah	1933	18,840	34.3	2	....	A, PU	....	....
Washington	1933	121,666	41.5	3⅓	See Table II	TR	....	....
West Virginia	1933	26,270	20.8	2	See Table II	All services[6]	....	All goods used in most types of business.[12]
Wyoming	1935	8,717	28.3	2	....	A, PU	....	Fuel.
TOTAL		2,471,577						

1. Repealed in 1940, reinstated in 1942.
2. Maryland levied a sales tax in 1935 but repealed it in 1936.
3. Pennsylvania imposed a sales tax in 1932, and repealed it in 1933. The tax was reimposed in 1954, and expired August 31, 1955. A 3% retail sales tax on specified classes of articles was enacted in March, 1956.
4. Laundry and dry cleaning, storage, printing, repair.
5. Laundry and dry cleaning, photography, repair, pest control, storage, etc.
6. Real estate brokers, agents, and certain personal and professional service.
7. Certain advertising, printing, storage.
8. Except personal, professional, public utilities.
9. In most states farm feed, seed and fertilizer are either specifically exempted or interpreted to be ingredients.
10. Goods directly consumed in production processes but not becoming ingredients.
11. Including manufacturing, extraction, utilities, retailing, etc.
12. Including manufacturing, agriculture, retailing, etc.
13. Temporarily, 3½%.

Table II

State Business Occupation Taxes Levied on Gross Receipts and Related Bases*

State	*Type of Tax*	*Year Introduced*	*Yield, 1955 Fiscal Year (thousands of dollars)*	*Yield, as Percentage of State Tax Collections*	*Rate*
Indiana	Gross Income	1933	102,797	40.5	½%, retail sales, service indus. ¼%, wholesalers & mfg'ers. 1%, all other income.
Michigan	Value-Added	1953	29,976	4.6	6½ mills on value-added[1]
Washington	Gross Rects.	1933	32,202	11.0	¼% on most types of business.
West Virginia	Gross Rects.	1921	36,553	28.9	Fractional rates varied by type of business

* Excluding those imposed by the sales tax laws, included in Table I.
1. 1½% mill rate on public utilities.