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A STUDY OF CONTEMPORARY SALES
TAX SYSTEMS IN FOREIGN COUNTRIES

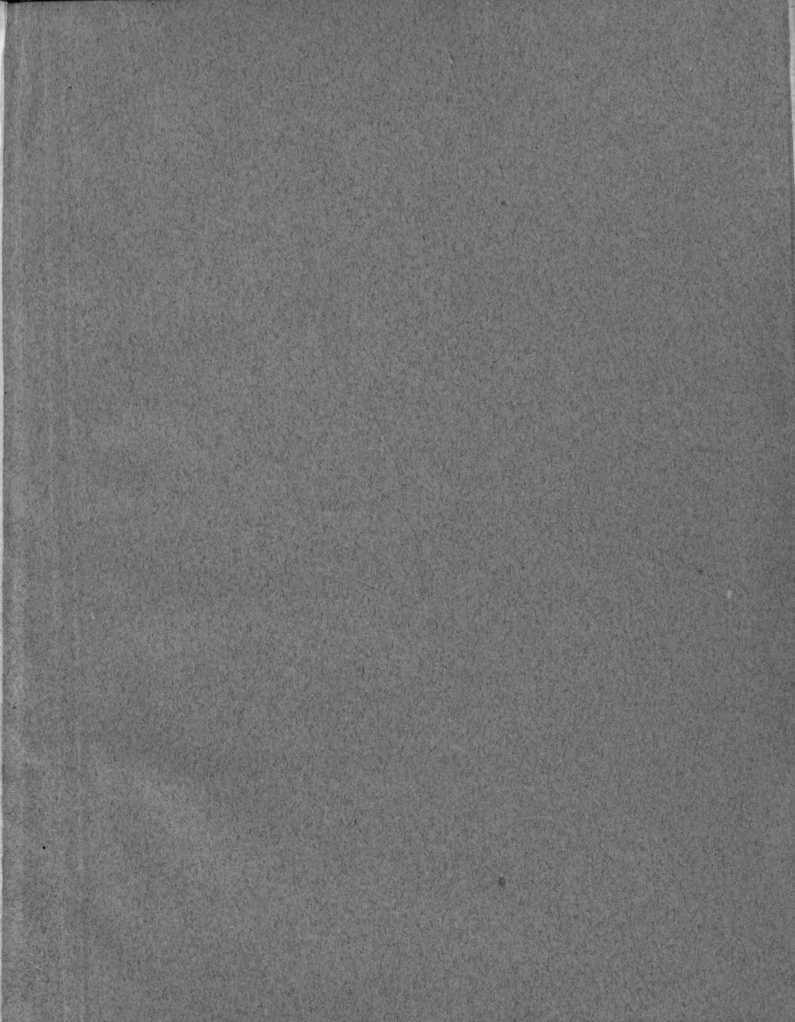
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Lawrence E. Bates

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A STUDY OF CONTEMPORARY SALES TAX SYSTEMS IN FOREIGN COUNTRIES

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A STUDY OF CONTEMPORARY SALES TAX SYSTEMS IN FOREIGN COUNTRIES

INTRODUCTION

CHAPTER I

NATURE AND TYPES OF SALES TAXES

"Sales Tax" may refer to any special tax levied on the sale of some one commodity. It may also refer to a general tax on all sales. Among the many types of sales taxes to be considered are:

The General Sales or Turnover Tax

The general sales or turnover tax is a tax on the sale, transfer, or turnover of commodities. It applies to the sale of all or a very large number of articles. In the most extreme form, the turnover tax is levied, usually at a low rate, upon the turnover or gross sales of all dealers in commodities and services. A turnover tax on commodities results in a tax upon each commodity every time it changes hands, from its first manufacturer to the ultimate consumer.¹ In a more restricted form the tax may be a levy on the final sales of goods, wares and merchandise for consumption or use.

The Manufacturers' Sales Tax and the Retailers' Sales Tax

The sales tax may take the form of a tax of a varying percentage, according to the stages of manufacture. There also may be a tax of a higher percentage against the sales of some one class of traders, such as all manufacturers or all retailers. The former is a manufacturers' sales tax and the latter a retailers' sales tax.

¹ T. M. Gordon, The Canadian Sales Tax, p. 1.

It may be levied only against manufacturers or importers' sales, as the proposed manufacturers' tax for the United States.

The Luxury Sales Tax

The so-called luxury taxes are sales taxes levied against the sale of certain articles over a certain price. There are some sales taxes which are taxes to be collected by the vendor from the purchaser. This type of sales tax often takes the form of a stamp tax against sales.²

Recent Sales Taxes

The sales taxes which have been instituted recently differ in many respects from one another, but in general they may be classified as turnover taxes - taxes on gross sales - usually at a low rate of about two per cent. Exemptions usually include articles of necessity, sales under a minimum sum, farmers' sales, enterprises subject to government control, and certain favored articles.³

Generally, though not always, a sales tax is shifted to consumers, and is therefore a consumption tax. A sales tax offers endless opportunities for variation. No two of these laws are exactly alike, and it is doubtful that any one of them has remained unchanged for more than a year or two.

Various experiments with the sales tax were made by many of the major countries just after the end of the World War. Treasuries were hard pressed for revenue, and sales taxes were necessarily resorted

² Lemont T. Beman, Selected Articles on Current Problems in Taxation, pp. 105-108.

³ Gordon, op. cit., p. 9.

to. These took the form of low percentage taxes on the value of sales, either of all transactions or of wholesale transactions only. Higher percentage taxes (luxury taxes) from ten to twelve per cent etc., were associated with sales taxes.⁴

France, Germany, Belgium, Italy, Austria, Hungary, Czechoslovakia, Rumania, and the Serb Croat-Slaven states introduced sales taxes in this period. Canada also adopted a sales tax. These taxes, introduced as temporary and emergency measures, all have tended to become well established in the fiscal systems of these countries.⁵

The national government of the United States has never collected a general sales tax, in the strict sense of the word. Extensive production and consumption taxation was employed in the Civil War. Customs were the chief element in our tax system before the Civil War, and from the Civil War to the World War customs and excise taxes were about equally important.⁶

The post-war movement for a general sales tax in the United States originated in opposition to the new order of taxation with its heavy demands upon business profits and personal income. By 1921, after the country had been exposed to the plentiful literature on the sales tax, the nation was well aware of the fundamental issues which were brought up by such a tax. Several bills providing for general sales taxes were submitted in the Senate and the House. Senator Smoot introduced a manufacturers' and producers' tax bill. Representatives of the organized movement for a general sales tax made their appearances

⁴ Alzada Comstock, *Taxation in the Modern State*, p. 112.

⁵ Ibid.

⁶ Alfred G. Buehler, *General Sales Taxation*, p. 7.

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before the Senate and House Committee to petition for a general sales tax. The proponents of the tax failed to force the adoption of a national general sales tax in the summer of 1921. The movement for a general sales tax had begun to disintegrate in 1921, and it continued during 1922 and the years following.⁷

After about ten years of indifference to general sales tax proposals, the sales tax is again the subject of much discussion in the United States. Congress has seriously considered the advantage of a manufacturers' sales tax. The Committee on Ways and Means of the House of Representatives has, for its first time in our history, recommended a general sales tax to Congress. The Treasury has expressed its willingness to collect a manufacturers' sales tax, and has approved the revenue program of the Committee on Ways and Means.⁸

The Purpose of this Study

In this study of the sales tax it is proposed to describe the nature and types of sales taxes, to present a brief account of the early application and historical developments of this tax, to discuss the present position of the sales tax in a number of national fiscal systems, and to describe the application scope and collection methods. It is also proposed to consider carefully the sales tax rates and yields, to consider the shifting and incidence of sales taxes and their effects on prices and competitive aspects, and to evaluate the advantages and disadvantages of sales taxes.

⁷ Ibid., pp. 6-7.

⁸ Ibid., p. 24.

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CHAPTER II

EARLY APPLICATION AND HISTORY OF SALES TAXES

Sales Taxes in the Roman Empire

Until very recently little attention has been given the sales tax in Anglo-Saxon countries. However, the sales tax is not a new tax. It has a history which goes back to the Roman Empire and Ancient Egypt. Almost nothing is known of the sales tax under the Pharaohs, but we do know that the general sales tax was given to the Roman fiscal system by Augustus. This tax was called the "Centesima rerum venalium"; that is, one-hundredth of all things sold or a one per cent tax on sales. The tax met with much resistance. It became so unpopular that Augustus could retain it only on the basis that it was necessary for the maintenance of the army.¹ Objections to the tax continued, and in the year 17 it was necessary for Tiberius to reduce it one-half. He restored it, later on, to the original rate, and finally increased it to two per cent. This tax was called the "ducentesima".² Increased opposition was aroused, and after a few years Caligula abolished it in Italy. The tax was reintroduced, later on, under a different name "the vertigal rerum venalium". This tax was also very unpopular, and soon was done away with.³ Thus, the Roman experiments with the general sales tax were not very successful.

The Early French National Turnover Tax

During the Middle Ages, when Europe was composed of a number of principalities, several attempts were made by feudal lords

¹ Edwin R. A. Seligman, *Studies in Public Finance*, pp. 124-125.

² Ibid.

³ T. M. Gordon, *The Canadian Sales Tax*, p. 2.

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to establish general sales tax systems. These attempts were always strongly opposed. The tax was levied as a national tax for the first time in France when Louis XI made the experiment in 1465. The tax appeared under the name of "sol par livre" or nickel per dollar. It was a five per cent tax, and applied in the beginning only to articles sold at wholesale.⁴

However, it must be observed that in the Middle Ages taxes on the sales of particular commodities were common. These special sales taxes were levied especially on the commodities which are commonly called the "necessities of life". For example, in France there were the "aides", a sales tax on the sale of beverages, and the "gabelle", a sales tax on the sale of salt. Several of these and other like taxes persisted as items of the state's fiscal system down to the revolution.⁵ The general sales tax levied by Louis XI in 1465 met with such great resistance that a rebellion was almost created, and after he had abandoned it the tax was again tried in 1485.

When the war brought fiscal difficulties to Henry IV, Sully reintroduced the tax as a war finance measure in 1597. This sales tax was known as the "pancarte", and only lasted a very few years. It was abolished in 1602.⁶ Sales taxes were applied at various intervals in the seventeenth century. In addition to taxes on wholesale sales, retail sales were also taxed. These taxes always created much opposition, and when Louis XIV tried to use the sales tax in 1642 he found that the very name of the general sales tax disturbed the people.

⁴ Seligman, op. cit., p. 125.

⁵ Ibid.

⁶ Gordon, op. cit., p. 1.

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The tax was abolished after three or four years. The French rulers found that it was necessary to have more revenue, and in 1861 the sales tax was again tried. It appeared under the name of "subvention du vingtieme" or the five per cent tax.⁷ Each time the tax was imposed it led to increased popular resistance. In fact, it led to local riots. The tax was soon abolished. The French found that the general sales tax was not a successful means of raising public revenue. All the sales taxes, including the "gabelles" and the "aides" were abolished when the French Revolution broke out.⁸

The Spanish Alcavala

The general sales tax was tried in the Kingdom of Naples in the fifteenth century, and was soon abolished. Spain was the only country where it was levied permanently. Early in the Middle Ages the sales tax was started in the communes, and was introduced as a national tax in 1342.⁹ It was first levied at the rate of one per cent on nearly all articles, then at five per cent, and later at ten per cent on all sales. This tax, the "alcavala", is of great historic interest. It reached from a one per cent rate to a ten per cent rate, and applied to the sale of practically every sort of property, movable or immovable. The tax was repeated every time there was a sale.¹⁰ The "alcavala" was retained by the absolute monarchs who knew of no better way to balance the budget. The tax was greatly opposed by the people and also by economic writers.

The relative prosperity of the two states, Catalonia and Aragon which were exempted from the sales tax by Isabella has been

⁷ Seligman, op. cit., pp. 125-126.

⁸ Ibid.

⁹ Ibid.

¹⁰ Gordon, op. cit., p. 2.

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attributed in a large part to the immunity from the "alcavala".¹¹ Adam Smith and other writers have gone so far as to attribute the economic downfall of Spain in the Middle Ages to this much detested and most burdensome impost, the "alcavala".¹² Since the large estates were generally entailed and therefore not subject to sale, the tax fell heavily upon the smaller properties. This had a ruinous effect upon the poor every time their property changed hands.¹³

The extension of the "alcavala" to the commerce of the Netherlands has been pointed out as a decisive factor which led to the violent revolt of the Dutch. "The Alcavala", says Seligman, "has been notorious as an example of misdirected zeal in public finance."¹⁴

The German General Accise

An impost which closely resembled the general sales tax was developed in the German Empire in the seventeenth and eighteenth centuries. The richer classes were evading their share of the direct taxes, and tax reformers believed that a tax on all types of consumption would make it possible to reach everyone proportionately. A general excise or a tax on the sale of almost everything was developed. This tax, the German "General Accise", introduced to secure equality in taxation led to numerous abuses, and was soon abolished.¹⁵

England's Nearest Approach to Sales Taxes

The general excise or sales tax was discussed frequently in England, but it never had much chance of being adopted. This has

¹¹ Seligman, op. cit., p. 127.

¹² Adam Smith, The Wealth of Nations, Vol. II, p. 498.

¹³ Seligman, op. cit., p. 127.

¹⁴ Ibid.

¹⁵ Ibid.

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been due partly to the fact that England always has been suspicious of continental devices.¹⁶ England's nearest approach to the sales tax was during the French wars when Pitt imposed taxes on nearly every commodity, generally when they were manufactured, and sometimes when sold.¹⁷ Most of these taxes were disposed of by Gladstone who substituted a system of concentrated taxes - that is, taxes on non-necessities of wide consumption where the difficulties of administration were less and the yield was larger. Gladstone thereby reduced the number of internal revenue taxes, and obtained a larger revenue.

Reappearance of the Sales Tax Issue in France

The general sales tax was not proposed in any other important country until it reappeared in France after the Franco-Prussian War. The tax arose as a "tax sur le chiffre d'affaires" or, in other words, a turnover tax. The proposal was rejected. The French economists Leroy Beaulieu and Leon Say objected to the general sales tax on the ground that it would be unequal as between different producers. They believed that such a levy would not distinguish between integrated and simple production. That is to say that the turnover tax would give an unfair advantage to the large dealers or manufacturers as compared with the smaller ones. These economists also pointed out that there would be much administrative difficulty in making people keep the proper books to show their sales. There was also the fear that the tax would be evaded. Attention was not given to the fact that there would be inequality from the point of view of consumers.¹⁸ However, the objections already voiced had been enough to prevent the passage of the sales tax bill by the legislature.

¹⁶ Ibid., p. 128.

¹⁷ Gordon, op. cit., p. 2.

¹⁸ Seligman, op. cit., p. 129.

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CHAPTER III

PRESENT POSITION OF THE SALES TAX IN NATIONAL FISCAL SYSTEMS

The chief modern examples of general sales taxes are the results of the pressure of financing during the World War and the post-war years. European governments, especially the belligerent powers were in urgent need of more revenue. The strain was too great for their existing revenue resources and general sales or turnover taxes were resorted to. France and Germany levied turnover taxes during the war and the major European countries, except England and a large proportion of the smaller states, have been forced to institute general sales or turnover taxes in the years following the war. Some of the taxes were abandoned after a short time, but many of them have remained in force.¹

Income taxes and other direct taxes have expanded, and increased the proportionate share which direct taxation has had in the total tax revenue. The sales tax has been at work to increase indirect taxes. It has not taken the place of the excise or internal revenue duties. It has supplemented them.² General or partial turnover taxes have been continued or recently enacted in several of the Latin American countries and in Canada. The foreign general sales or turnover taxes in force today with only a few exceptions are less than ten years old.³ However, the Philippines and Mexico have sales taxes dating from the beginning of this century. These taxes represent the old Spanish tradition of a general sales tax.

¹ National Industrial Conference Board, General Sales or Turnover Taxation, p. 110.

² Alzada Comstock, Taxation in the Modern State, p. 110.

³ The National Industrial Conference Board, loc. cit.

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Tax on Sales in Mexico

The Mexican Federal Stamp Act of 1893 provided for a tax on retail and wholesale sales. This tax law was superceded on June 1, 1906 by a new Act which has since been extensively amended. By decree of May 22, 1917, the Federal Stamp Tax established by the Act of 1906 was increased fifty per cent beginning January 1, 1918.⁴ The sales tax yields much revenue to the Mexican Government, but there is constant agitation for its abolition.

The Philippine Sales Tax

The Philippine Sales Tax dates from 1904 though in 1915 the rate of the tax was increased but there was no change made in its structure. In 1923, a temporary increase was made in the rate, and this increase became permanent in 1925. The Philippine tax was considered by the United States, particularly at the time of Senator Smoot's proposals for the sales tax in the United States.⁵ The sales tax has been a success in the Philippine fiscal system since it supplies much revenue, and the method of collection has been efficient.

The German Turnover Tax

Germany was the first European country to resort to the principles of the general sales or turnover taxation in the Twentieth Century. In 1916 the Imperial Administration considered the possibility of a general payments tax - a universal tax on transfers of money, checks and other means of monetary or credit payment. However, this proposal was soon discarded in favor of a turnover tax based on commodity

⁴ Library of Congress Legislative Reference Service, Taxes on Sales in Mexico, p. 1. (A. Bernard).

⁵ T. M. Gordon, The Canadian Sales Tax, p. 3.

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transfers. On June 26, 1916 a tax law was passed which provided for a commodity transfer stamp tax, "Warenumsatzstempelsteuer" with a low rate. The tax was a stamp tax in name only, and was cumbersome to administer.⁶ This law applied only to the transfer of commodities. Numerous proposals for the development and expansion of the tax were made and a new law became effective August 1, 1918. Provision was made for the continuance of its operation for five years.⁷

The German turnover tax of 1918, "Umsatzsteuer" was the first and one of the best examples of a general turnover tax in modern history. It was carefully prepared and "Business Activity" furnished the basis for the tax. This turnover tax was more workable than its predecessor and established itself in the budget. In 1924 various forms of the sales tax were considered by the German administration but the existing turnover tax was retained. However, the system was far from being ideal, and there was much opposition to any proposed increase in rates. The turnover tax produces much revenue. This is one of the features of the tax which has not been overlooked.

The French Turnover Tax

The modern European sales tax system which has received the most widespread discussion is that of France. Early in 1914 a limited retail sales tax was enacted in France for the purpose of checking the activities of large merchandizing establishments. A special progressive tax was levied upon the sales of retailers with an annual turnover in excess of a million francs and though strongly opposed, it still is

⁶ The National Industrial Conference Board, op. cit., p. 166.

⁷ Ibid., pp. 166-167.

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retained. This was a much discussed tax in the debates on the 1917 turnover tax, and probably served as an influence on the final form of the Retail Sales Tax of 1917.⁸

In 1915 suggestions were made for a broad turnover tax in France and by 1919 it was quite necessary that a broader source of tax revenue should be provided. By the Act of 1920 a combined turnover and luxury tax was instituted. This turnover tax was a new thing for modern France since previously a large number of indirect taxes, chiefly on production and transfer of certain goods and property had been used. Specific levies had been common, but no ad valorem levy as broad as the turnover tax had been attempted for centuries.⁹

The turnover tax was introduced in France for the express purpose of providing additional revenue in the quickest and easiest manner. Although the tax has been criticized severely on account of its low yield in 1920 - 1923, it accomplished the original purpose. There was no other levy to which France could have turned that would not have yielded revenue more slowly and at a greater expense, with the possible exception of a tax on capital.¹⁰

Despite the grounds on which the turnover tax was introduced in France, it has become the subject of widespread dispute. The forces of the Government which are represented by the Finance Ministry gained the first victory in 1920 when the tax law was adopted, and they have maintained their hold in the continuous struggle

⁸ Ibid., p. 171.

⁹ Carl S. Shoup, The Sales Tax in France, p. 3.

¹⁰ Ibid.

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for additional revenue to check inflation.¹¹ The Radicals, who claim to represent the mass of consumers and also to some extent, small business men, have used the tax as an issue in their campaign against social injustice. However, it is the Conservatives and richer class of people, both inside and outside of Parliament, who have made the program of the Radicals quite impossible by resisting any extension of income taxes. It is evident that the French Finance Ministers have been more interested in obtaining the revenue than in anything else and it has made little difference to them from which tax the money came. The turnover tax is established, and it is not likely to be given up without assurance that a substitute can be found which would receive cooperation from those who contribute the most.¹²

The Government seems to have the strongest hand and although abolition of the tax was promised in the political campaign of 1924, the tax remains. Proposals for the exemption of special classes of sales have also failed in the most part. During the last nine years the turnover tax has stood up against numerous attacks, and has earned its important place in the fiscal system of France.¹³

The Austrian Turnover Tax

A general turnover tax was proposed in Austria in 1920, but was not accepted. The tax was brought up again in 1922 and the Sales Tax Act of 1923 introduced a commutation of the turnover tax. Austria began by taxing all turnovers, but commutation soon became

¹¹ Ibid.

¹² Ibid., pp. 3-4.

¹³ Ibid., p. 4.

the most important factor in the system. The Minister of Finance has the authority to determine the turnover tax for any branch of production or business, after consultation and agreement with the parties concerned. The regular operations of the tax may be done away with by making the proper provisions, in respect to all turnovers of any commodity, that the tax will be paid in one payment by the producer, or at the time of importation, or from the dealer. The tax in Austria has been commuted for the majority of large industries, and for nearly all their products.¹⁴

No changes have been made in the fundamental character of the Austrian turnover tax. There have been made several modifications of the schedule of consolidated rates and of the schedule of consolidated transfer taxes to be paid on the occasion of importation. These have resulted from price changes and changes in consumption demand. In recent years the Austrian turnover tax has been marked by greater liberality of export rebates. The turnover tax has reached a very important place in the national tax system of Austria. In fact, Austria depends more upon this tax than any other European country.¹⁵

The Belgian Turnover Taxes

The first Belgian turnover tax was passed in 1921. Belgium took advantage of the French and German experiments with turnover taxes. The Belgian turnover tax was not a business tax based on gross incomes of manufacturers and merchants. Instead, it was levied as a transfer stamp tax, "taxe de transmission" and stamps were to be attached to all

¹⁴ Gordon, op. cit., pp. 14-15.

¹⁵ National Industrial Conference Board, op. cit., p. 180.

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invoices and bills of sale. The Belgians hoped to overcome the weaknesses in administration that the German and especially the French, turnover taxes had demonstrated.

In actual experience, the Belgian commodity transfer stamp tax did not become entirely shifted to consumers as was intended. It tended to rest upon producers and merchants who were in competition with combinations or associations which produced or sold similar goods by methods requiring less taxable transfers.¹⁶ The law of January 2, 1926 provided that a consolidation tax, of two per cent should be paid at one particular stage of the production of certain products, and therefore much of this discrimination would be eliminated. Transfers which were subject to the tax also were classified for taxation by this law. The law of June 8, 1926 raised the rates and increased the number of sales subject to the tax. In 1927 and 1928 further modifications were made. The schedule of prices determining the "luxury" character of lodgings was raised and the rates reduced. In addition, provision was made for the consolidation of the tax on a number of specific commodities, mostly foodstuffs. Along with the development of consolidation taxes went a provision for rebate of these taxes upon the export of the taxed commodities.¹⁷

The increases in the rates of the Belgian turnover and luxury taxes has given these taxes first place in the Belgian tax system as far as the production of revenue is concerned. "Belgium furnishes an example of the use of the sales tax in a country which is committed by habit to democratic taxation typical of Great Britain and in post-war years of the United States."¹⁸

¹⁶ Ibid., p. 175.

¹⁷ Ibid., p. 176.

¹⁸ Comstock, op. cit., p. 140.

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The Italian Turnover Tax

During the war and post-war periods, the Italian government levied stamp taxes on the retail sales of certain luxuries. These were displaced by the commodity transfer tax of March 18, 1923, and a later modification joined to this commodity transfer tax those levies of the independent sales taxes on wines and perfumes which had not been abandoned. This combined tax was called "la tassa generale di bollo sugli scambi commerciale" (the general stamp tax on commercial operations).¹⁹ The original low rates were increased under the Fascist Government, and the scope of the tax enlarged. The tax imposed in 1927 was a general turnover tax. There were no further changes in the rate schedule or the essential structure of the Italian turnover tax until 1930 when Italy, like Germany, Canada, and other countries was compelled to modify her sales tax, due to a shortage of revenues caused by the general world wide depression. The transfer tax was increased in rate at this time and a standard or uniform rate of one and one-half per cent was introduced. Under the 1930 law the sale of gas, electricity, and commercial refrigeration is subject to the usual transfer tax. In 1931, the tax rate was advanced to the new high level of two and one-half per cent in order to produce much larger revenues.²⁰

In addition to the national tax on transfers of goods, there are general sales taxes employed by some of the municipalities and provinces of Italy. The national government, however, controls the use of sales taxation by local governments.²¹

¹⁹ National Industrial Conference Board, *Ibid.*, p. 177-179.

²⁰ Alfred G. Buehler, *General Sales Taxation*, pp. 132-133.

²¹ *Ibid.*

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The yield of the Italian transfer tax has remained modest. Improvements in the administration of the tax through added experience, currency depreciation and growth of Italian business account for what increase there has been in the yield. However, in the last few years the value of the lira has increased, and consequently the yield of the Italian tax has fallen off. This has been true of all Italian taxes. The turnover tax produced less than seven per cent of the total national tax revenue in Italy.²²

The Hungarian Turnover Tax

The sales tax has had a very different history in Hungary from that of its sister state, Austria. Hungary and Austria underwent financial reconstruction and received international assistance at about the same time. However, a general turnover tax was levied in Hungary in 1921 before financial disorganization had overtaken the country.²³ The tax was modeled after the German law, and was levied on commodity transfers and the performance of commercial and professional services. The tax differed from the German tax in that imports were taxed at general turnover rates. A luxury tax was also combined with the general turnover tax. Modification has brought about changes in the Hungarian turnover tax. The tax rates were increased in 1922, and this resulted in a direct decline in the total gross revenue. The rates were lowered in 1925 and in later years exemptions have been extended. A very important development has been the application of the Austrian principle of consolidating the tax, with consequential consolidated import turnover duties and consolidated export rebates.²⁴

²² National Industrial Conference Board, op. cit., p. 179.

²³ Comstock, op. cit., p. 148.

²⁴ National Industrial Conference Board, op. cit., p. 181.

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The turnover tax has become the most productive of all sources of government revenue in Hungary. The tax, however, is the subject of much criticism, but its revenue has been necessary.

The Czechoslovak Turnover Tax

General and luxury turnover taxes were enacted in Czechoslovakia in 1919 and in 1921. In its search for new ways of raising revenue, this country experimented with the new fiscal devices which the neighboring countries were trying. The sales tax appeared to be the best tax to resort to, and in December 1919 a law providing for the sales tax was passed. The law went into effect on January 1, 1920. This made Czechoslovakia one of the first countries to adopt a modern sales tax.²⁵ Great care was taken in framing the law so that all commercial transactions, and commercial and professional services should be made taxable. Together with this tax there was included a levy on luxuries.

In 1923, the Czechoslovak tax was revised, and modeled after the Austrian tax of 1922. This levy, as well as the earlier levies, made provision for the consolidation of the pyramided tax on certain articles. However, the consolidation was not carried out to the extent that it was under the Austrian law.

Early in the first year of the turnover tax the Czechoslovak government became convinced that the tax would be a good revenue producer. In the first two years, the turnover tax yielded from a fourth to a fifth of the total tax revenues and in 1921 the tax stood second among taxes. Since 1922 the turnover tax has remained the most important tax.²⁶ Changes have been minor, the

²⁵ Comstock, op. cit., p. 180.

²⁶ Ibid., pp. 141-143.

most important of which have been the reduction of the list of articles subject to the luxury tax. The turnover tax has continued to produce from one-fifth to one-fourth of the Czechoslovak national tax revenue.²⁷

The Polish Turnover Tax

Poland began the use of the turnover tax in 1923 when a sales tax, together with a business license tax law were enacted. The tax was of the commodity transfer type, and was levied on the gross income reported by merchants and manufacturers. There were some exceptions to this rule. Deductions were allowed on account of discounted, shipping and insurance expenses defrayed for the buyer; losses by banks in their operations in foreign currencies and in securities were deductible; oil and gas well royalties were deductible from gross receipts.²⁸ The turnover tax law was modified in 1925, but it has remained in much the same form to the present time.

The turnover tax in Poland has not been exceptionally productive. It is, nevertheless, highly significant as a source of revenue. Only customs duties and monopolies yield more revenue.²⁹

Those who have studied the Polish turnover tax have recommended simplification of the tax system. The establishment of a uniform tax rate which would apply to necessities the same as to other commodities would do much towards bringing about this simplification.³⁰

²⁷ National Industrial Conference Board, op. cit., p. 182.

²⁸ Buehler, op. cit., pp. 141-142.

²⁹ Ibid., op. cit., p. 142.

³⁰ Comstock, op. cit., pp. 144-145.

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The Turnover Tax in Rumania

A luxury tax and a turnover tax exist in Rumania. The tax, first levied in 1921, combines a commodity transfer tax with a series of luxury taxes. The tax is levied on domestic sales and transfers of manufactured articles and of raw materials, with specific exceptions. Exports of a certain class are taxed. The Rumanian tax, however, is not based on the actual sales price of the articles sold or transferred. Instead, it is based on an average price per unit as fixed by the Ministry of Finance. The schedule of average prices is complicated and necessarily adds to the complexity of the tax system.³¹

The Turkish Turnover Taxes

In 1926 Turkey imposed a general tax upon sales and business transactions completed within the country. Sales of bread, articles controlled by state monopolies, amusements, sales of small traders and artisans, exchange transfers, hotel and restaurant service, etc., were exempt. The tax was collected by means of stamps.³²

The general sales, or consumption tax of 1926 was repealed in 1927, and a manufacturers' sales tax was enacted as a substitute. Imports were taxed at the rate of six per cent. Exports were taxed at a much lower rate of two and one-half per cent provided a production tax had not been paid already when they were exempted from the export tax. The purpose of the new law was to facilitate tax collections by doing away with the use of stamps in collection; this was done by imposing the tax on manufacturers directly. An additional objective was the improvement of business conditions in Turkey by more lenient

³¹ National Industrial Conference Board, op. cit., p. 183.

³² Buehler, op. cit., p. 293.

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taxation. While the general sales tax was not the most important of Turkish imposts, as a manufacturers' sales tax it is a very important revenue producer.³³

The Turnover Tax in Soviet Russia

Since 1921, the soviet government of Russia has had a combined license and turnover tax. It is levied on manufacturers and merchants. The tax is not purely a turnover tax in form. It is a combination of a gross sales tax and a semi-business-income tax. There is no general fixed tax rate. Rates are established for various classes of business enterprises. The tendency is to tax private businesses at rates higher than state or cooperative enterprises. The tax is now based on a fixed schedule, and the provisions of the tax are complicated and rigid.

Russian business men, and especially the small retailers, are not very familiar with western methods of accounting. This renders it necessary to make many allowances for difficulties in tax collection. For the purpose of the tax many of the accounts which are kept are inadequate, and it is therefore necessary to make estimates of the taxable turnover.³⁴ The tax returns large revenues and ranks next to excise taxes in importance. It produces about five per cent of the total revenue of the U. S. S. R.³⁵

The Turnover Tax in Portugal

A turnover tax was established in Portugal in 1922 when the entire tax system was made over. The tax was productive, but the cost of collection was very high. In 1929 during a period of tax reforms the turnover tax was abolished. The repeal of the tax was

³³ Ibid.

³⁴ National Industrial Conference Board, op. cit., pp. 183-184.

³⁵ Gordon, op. cit., p. 9.

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brought about by the desire to simplify the taxation of business and by complaints from business that the tax could not be shifted to consumers. Another important factor in the removal of the tax was the inability of the government to obtain satisfactory records of taxable transactions from business.

Sales Taxes in Latin America

The Spaniards introduced the "alcavala" into Spanish America, but the tax was retained only as long as the New World continued to be a subject of the Old World. The tax was abolished in the struggle for independence during the third decade of the Nineteenth Century, and it did not reappear for a century. Recently, however, four Latin American countries - Bolivia, Brazil, Cuba, and Ecuador have initiated turnover tax laws. Special excises or consumption taxes are to be found in the fiscal systems of other Latin American countries. Some of these consumption tax systems are rather broad, but they lack the universality and uniformity which general sales or turnover taxes have.³⁶

The Turnover Tax of Bolivia

In 1923 Bolivia abolished the net income tax on business, because of the difficulties of administration. A tax upon commodity transfers and sales of commercial services was substituted. The tax of 1923 has remained practically the same, although a presidential decree in 1930 revised various particulars of the law.³⁷ The yield of the turnover tax is relatively small.

³⁶ National Industrial Conference Board, op. cit., p. 184.

³⁷ Buehler, op. cit., p. 301.

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The Brazilian General Sales Tax

Brazil has had a consumption tax for about three quarters of a century. The tax includes a group of excises on specific commodities or articles. The rates are individual and the items subject to the tax are specified. This tax, like the Mexican consumption tax, lacked, at first, the uniformity and universality which is necessary to general sales or turnover taxes. However, the law of December 31, 1922 served to enlarge the consumption tax through a general tax on the sale of articles which had not been subject to the consumption tax.³⁸ In 1924 the stamp tax on commercial sales was introduced. Stamps are attached to invoices or sales registers. The stamps are purchased by requisition from the government. The data thus obtained are used by the government in calculating the tax on "commercial profits", which is in reality a section of the income tax. The sales tax supplies between five and eight per cent of the Brazilian revenue.³⁹

The Cuban Gross Sales Tax

At the time of the occupation of Cuba, the officials of the United States discarded the old sales or consumo tax, and instituted the property tax in Cuba. Sales taxes have been established in Salvador and in Porto Rico, but they have not taken an important part in revenue production.⁴⁰

The Cuban gross sales tax was adopted by the law of October 9, 1922. The repeal of the business profits tax had been requested by business in Cuba. A general sales tax at the rate of one per cent was substituted. On a number of occasions the law of 1922 has been revised.

³⁸ National Industrial Conference Board, op. cit., p. 185.

³⁹ Gordon, op. cit., p. 8.

⁴⁰ Ibid., p. 4.

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A law of July 6, 1928 codified and revised the previous laws. Early in 1931 a law was passed which gave the President power to raise the tax rate on imports to seven and one-half per cent and laid special luxury taxes on certain commodities, hotels, and cafes. This increased rate was never made effective, however, so that the tax of one and one-half per cent has remained in force on domestic sales and imports. Another emergency law, passed early in 1932, has authorized the President to increase the rate of the seven and one-half per cent tax to ten per cent if necessary.⁴¹

The Cuban tax was rather hard to understand when it was introduced, but after the newness of the tax had worn off, its administration was more efficient. Today, the Cuban gross sales tax supplies a regular and satisfactory source of revenue.⁴²

An investigating commission headed by Professor E. R. A. Seligman and appointed by President Machado has recently been reported to have recommended the repeal of the gross sales tax in Cuba or as an alternative, the reduction of the tax to one-half per cent. The repeal of other taxes and an overhauling of certain other revenues has been suggested.⁴³

The Gross Sales Tax of Ecuador

In 1924 a turnover tax was enacted in Ecuador. The tax was levied at the rate of one per cent on the gross value, or price of all commercial and industrial articles sold or transferred, whether partially or fully manufactured, of domestic or foreign origin. Under the codified sales tax laws of 1930, the tax is still collected at

⁴¹ Buehler, op. cit., pp. 297-298.

⁴² Ibid., pp. 298-299.

⁴³ Ibid., p. 299.

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the original rate of one per cent. The gross sales tax supplies a small amount of the total revenues.⁴⁴

The Consumption Tax of Columbia

Laws were passed in 1922 and 1923 which reformed consumption taxation in Columbia. The tax was limited to articles of domestic production. The Government made contracts with factories for the lump sum payments. The consumption tax produced about one-sixth of the total revenues in 1926.⁴⁵

The Payments Tax of Peru

A general payments tax is collected in Peru. The law of December 12, 1923 lays a tax at progressive rates on all private documents which represent the payment of a sum of money. The rate of the tax varies progressively according to the amount of the payment. The tax on payments supplies a small amount of the total revenues.⁴⁶

The Business Transactions Tax of Argentina

Argentina has recently enacted a general sales tax law. A tax of three-tenths per cent imposed on business transactions in general became effective October 15, 1931. All commodity sales at wholesale and retail by all types of business enterprises are taxable. The basis of the tax is the total sales of merchandise, which are declared under oath by the taxpayer. Exemptions, however, are allowed by the transactions law.⁴⁷

⁴⁴ Ibid., p. 300.

⁴⁵ Ibid., pp. 299-300.

⁴⁶ Ibid., p. 302.

⁴⁷ Ibid., p. 304.

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The Consumption Tax of Ethiopia

New consumption taxes were made effective in Ethiopia on March 30, 1931. The sales of ordinary articles of domestic production are taxed at five per cent of the price in the consuming markets. Higher rates are applied to luxuries. Imports are assessed at various rates according to the particular products. It has been reported that the purpose of the new levies is to add strength to the Bank of Abyssinia and to aid in the establishment of a gold monetary standard.⁴⁸

The Turnover Tax of Yugoslavia

A general turnover tax was adopted by Yugoslavia in 1921. The sales of ordinary articles were taxed at the rate of one per cent. Sales of luxuries were taxed at the rate of ten per cent. No material modifications in scope or in rates were made until 1931 when the Finance Minister transformed the tax into a system of lump sum turnover taxes. The basic rate of one per cent remained, but the tax is collected only once with respect to each commodity. The tax rate to be paid is determined by the average number of turnovers for each article. The purpose of the new tax is not to increase the total amount of turnover taxes. Instead, its purpose is to impose the taxes more conveniently at definite stages of production or distribution rather than on all the stages of production and distribution. The Austrian principle of lump sum turnover taxation has been duplicated in many ways. The turnover tax yields a relatively small but significant revenue in Yugoslavia.⁴⁹

⁴⁸ Ibid.

⁴⁹ Ibid., p. 294.

1. *Journal of the American Medical Association*, 1997; 277: 1039-1043.

$$S = \{x_1, x_2, \dots, x_n\} \subseteq \mathbb{R}^d, \quad x_i = (x_{i1}, x_{i2}, \dots, x_{id})^T, \quad i = 1, 2, \dots, n, \quad (1)$$

1. *Journal of the American Medical Association*, 1997; 277: 1033-1036.

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1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 26

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Figure 1. The effect of the concentration of the H_2O_2 solution on the amount of the released H_2O from the H_2O_2 -loaded hydrogel. The amount of the released H_2O was measured by the weight difference of the hydrogel before and after the release. The concentration of the H_2O_2 solution was 0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8, 0.9, and 1.0 wt. %.

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• *Staphylococcus aureus* (Staph aureus) is a Gram positive cocci in clusters. It is a facultative anaerobe and is found in the skin, nose, throat, and in the environment. It is a common cause of skin infections, abscesses, and food poisoning.

1. *Journal of the American Medical Association*, 1997; 277: 1039-1043.

1. *Journal of the American Medical Association*, 2000; 283: 2689-2693.

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The Producers' Tax of Australia

A general sales tax was introduced in the Australian 1930-1931 budget. Expenditures were increasing during 1930 and the revenues were falling during the period of economic depression and additional income had to be secured. New revenues have been devised to meet the emergency - the producers' sales tax modeled after that of Canada has been instituted.

The productivity of the sales tax, customs duties, and other revenues during 1931 was rather disappointing in Australia. This is mostly due to the depression. The object of the sales tax has been to augment tax revenues. The sales tax rate has been increased from two and one-half per cent to six per cent upon the sales of manufacturers and producers for home consumption and upon commodities imported to be consumed in Australia. The sales tax added to the other heavy duties that tend to be shifted to consumers, and it stressed the increasing proportion of indirect to total taxation. The numerous exemptions of articles of common consumption tend to make the effects of the producers' tax less burdensome.⁵⁰

The Canadian Sales Tax

Great Britain and the United States have not utilized the general sales tax in making post-war adjustments, but Canada has. The experience of Canada offers us an excellent example of how the sales tax is operated in a different type of industrial society.⁵¹

The tax system of Canada was quite simple before the war. Most of the revenue for the dominion government was produced by customs and excise levies. In fact, the only other item of receipts

⁵⁰ Ibid., p. 304.

⁵¹ Comstock, op. cit., p. 149.

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classified by the Department of Finance as a tax was the Chinese head tax. The simplicity of the Canadian tax system could not be maintained in war time and drastic measures had to be taken in order to meet the added expenditures from 1914 onward. It was considered expedient that revenue from taxes should be sufficient to cover interest payments for loans which were floated, and provide a sinking fund.⁵²

Consequently, Canadian customs and excises were increased in 1914. In addition to customs increases in the following year, a Special War Revenue Act provided for new taxes on bank note circulation, on trust and loan companies, on insurance, on telegrams, cablegrams, railway and sleeping car tickets, on cheques, postal notes, money orders, and post cards. The Business Profits War Tax was introduced in 1916. This levy remained until 1921. In 1917 the Income Tax was introduced, and rate increases were made in the years following.⁵³

Canada entered the post-war period with high federal income and excess profits taxes. The latter were soon abandoned, and the income tax rates were reduced. Accordingly, a new source of revenue had to be developed.

The Canadian dominion government enacted a turnover tax in 1920. A tax of one per cent was imposed upon all sales by manufacturers and wholesalers which were not specifically exempt. A distinction was soon made between sales made by a manufacturer to a wholesaler and by the wholesaler to retailer or consumer, and those made by manufacturer to retailer or consumer.⁵⁴ It was intended that a tax of at least two per cent should be imposed on goods sold for consumption. Therefore sales made by manufacturers to wholesalers or jobbers were taxed at the

⁵²Gordon, op. cit., p. 11.

⁵³Ibid.

⁵⁴Ibid.

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rate of one per cent, and sales by wholesalers or jobbers to retailer or consumer were again taxed one per cent. Direct sales from manufacturer to retailer or consumer were taxed at the rate of two per cent. Importations were subject to the same tax as domestic sales.

The Canadian sales tax law was a manufacturers', producers', wholesalers', and jobbers' tax - not a retail sales tax or a general turnover tax. Although it was intended that the tax should produce two per cent on goods as they reached the consumer, the tax might be greater than two per cent. Two per cent was the minimum, and not the maximum.

In 1921 the scope of the Canadian tax was broadened, and the rates were increased one half. Compensating import duties of two per cent on wholesale merchants' imports and four per cent on importations by retailers and consumers were levied. Export sales were not subject to the tax, and a drawback or rebate up to ninety-nine per cent of the sales tax paid previously was granted on articles exported.⁵⁵ In 1922, the rates of the manufacturers' and merchants' sales tax were again increased by one-half. Exemptions were also increased.

So far the changes in the tax had been along two main lines, first an increase in the rates, and second, a decrease in the number of articles subject to the tax through extension of the exemption list. In 1923, a quite different change was made.⁵⁶ The Canadian turnover tax was changed in character from a manufacturers' and merchants' sales tax to a production tax on manufacturers. The rate was fixed at

⁵⁵ National Industrial Conference Board, op. cit., p. 186.

⁵⁶ Gordon, op. cit., p. 13.

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six per cent.

In order to assure the payment of the tax once, but not more than once, on all manufactured articles, and also to simplify the administration of the tax, it was provided that all manufacturers who produced more than \$10,000 of goods annually should be licensed. In addition, wholesale merchants and jobbers selling more than fifty per cent of their turnover to licensed manufacturers were required to be licensed. Provision was made for the exemption of such part of a manufacturers' output as was sold to other licensed manufacturers or wholesalers and the entire tax on the finished article was paid by the manufacturer of the finished article whether he purchased directly from the manufacturer of the unfinished article or through the medium of a licensed wholesaler. The sales made by licensed wholesalers to retailers, consumers or unlicensed manufacturers were taxed. The only goods manufactured in Canada aside from the exempted list, escaping the tax were those produced from raw materials or exempted commodities by unlicensed manufacturers (those producing less than \$10,000 of goods a year) and sold directly to retailers and consumers, or to unlicensed wholesalers and by them resold to retailers and consumers. However, a check was imposed here by the provision that the Minister of Finance might compel a manufacturer with an annual turnover under \$10,000 to take out a license if he used "a substantial portion of goods which are exempt from the tax in the manufacture of goods which are liable to the tax."⁵⁷

A special import duty of six per cent was levied on the importation of goods subject to the sales tax. However, this tax

was refunded when such goods were purchased by a licensed manufacturer or wholesaler who would have to pay a tax on their resale. This refund was not allowed to unlicensed manufacturers who would not be taxed on the resale of the articles after they had been processed. The amount of sales tax paid on imported or Canadian articles was refunded when these articles were exported.⁵⁸

With a few minor exceptions, the series of exemptions under the laws of 1921 and 1922 was maintained in the new Canadian law, and additional articles were placed on the list.⁵⁹

The rate of the Canadian production tax was changed from six to five per cent in 1924. The limitation of licensing to manufacturers with an annual turnover in excess of \$10,000 was discontinued. It was made necessary for all manufacturers to take out licenses, with the exception of such concerns manufacturing exclusively for local retail trade as might be exempted by the Ministry of Finance. Wholesalers and jobbers were allowed to take out licenses carrying exemption from the tax on goods purchased by them, but they were obligated to pay the tax on sales made to other than licensed manufacturers or dealers.⁶⁰

In 1925 further additions were made to the list of exempted articles, and in 1927 the rate of the tax was reduced from five to four per cent. The rate was reduced another one per cent in 1928, and it was generally believed that further reductions and final elimination of the sales tax would follow.⁶¹

⁵⁸ Ibid., p. 168.

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Comstock, op. cit., p. 151.

The Canadian turnover tax like nearly every sales or turnover tax has been burdensome. It has at times surpassed the income tax in productivity and has yielded more than twenty-five per cent of the total receipts of the government.

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CHAPTER IV

THE APPLICATION SCOPE OF SALES TAXES

The scope of sales and turnover taxes have varied greatly. Some of these levies have extended to all transactions and others to certain types of transactions only. That is, some taxes are extended to both wholesale and retail transactions, and others to wholesale transactions only. Certain taxes include both goods and services. Others include only goods. The turnover tax in Germany is an example of a tax which includes nearly every type of transaction in the line of goods and services.¹ The German turnover tax applies to sales of goods and services which any person in Germany makes for payment in the execution of his business or professional activities.²

Defining Taxable Transactions

A fundamental requisite of every sales tax is the definition of taxable transactions. The scope of the sales tax will depend upon the revenue requirements of each country, the desirability of exempting certain classes of business and the sales of certain goods and services, the conditions of economic development, and numerous variable factors. When national finances are demoralized and the need for revenue is urgent, the base of the tax will be as broad as possible. When finances are stable and sound the sales tax may be low in rate, and limited in scope, or even abolished.³

The very definition of any taxable business turnover entails numerous discriminations. Table I on the following page indicates the bases of taxation in various countries in 1930. The total business

¹ Alzada Comstock, *Taxation in the Modern State*, p. 113.

² *Ibid.*, p. 124.

³ Alfred G. Buehler, *General Sales Taxation*, pp. 148-149.

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TABLE I
SALES TAXES IN 1930⁴

Country	Taxable transactions	Ordinary tax rate, per cent	Luxury tax rate, per cent	Import tax rate, per cent	Export tax rate, per cent
Australia	Manufacturers' sales	2.5	Same	Same	Exempt
Austria(1929)	Producers' sales	2% basis	10	Same	Exempt
Belgium	Transactions in goods except retail	1	6	Same	Exempt
Bolivia	Gross receipts	0.5-2	Same	Exempt	Exempt
Brazil (1924)	Commodity sales	0.5-2	Same		
Canada	Manufacturers' sales	1	Same	Same	Exempt
Cuba	Business receipts	1.5	Same	Same	Exempt
Czechoslovakia	Average value of commodities	2	10-12	Same	Exempt
Ecuador	Merchants and manufacturers' gross sales	1	Same	Same	Exempt
France	Total business receipts	2	4-13	Same	Exempt
Germany	Total business transactions	0.85-1.35	Same	Exempt	Exempt
Hungary	Gross sales	2	10	Same	Exempt
Italy	Transactions in goods for business use	1.5	Same	Same	Exempt
Mexico (1928)	Payments in money	0.5-0.7	Same	Same	Same
Philippines	Gross receipts	1-1.5	Same	Same	Same
Poland (1928)	Gross receipts	0.5-2	Same	Same	Exempt
Porto Rico(1927)	First sales of commodities	2	Same	Same	Exempt
Rumania (1929)	Average value of commodities	2.2% basis	11-16.5	Same	1
Russia (1928)	Gross receipts	1.6-17.15	Same	Same	Same
Spain (1929)	Gross receipts	0.25-2	5	Same	
Turkey (1927)	Manufacturers' sales	6	Same	Same	2.5
Yugoslavia	Gross receipts	1% basis	3.5-12	Same	Exempt

⁴ Ibid., p. 150.

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receipts may be taxed, as in France, or the individual transactions may be taxed, as in Belgium and Italy. The tax may be levied on the sales of commodities and services, as in Hungary, or only on sales of commodities, as in Italy. All incidental sales may be taxed, as in Belgium and Rumania, or only the incidental sales for profit, as in France. Incidental sales may be exempted by taxing only regular and continuous business activity, as in Germany. On the other hand, all transactions in commodities and services may be subject to a uniform tax, as in Germany, or transactions in commodities and services may be subject to various turnover taxes, as in France.⁵

Many of the obstacles to efficient sales tax administration arise from the difficulties experienced in defining, for taxation purposes, general business activities of a constantly changing character in concise and practicable terms. The law must state what business activities shall be taxable, what persons' transactions shall be taxable, and transactions in what things shall be taxable. Even after the legislators have done their best at definitions, numerous disputes will continue to arise over the interpretation of the law. It is difficult to define the word "sale" for taxation purposes. It is because of the involved problems arising from the attempt to define sales that several nations tax exchanges, barter, transfers, and other transactions made for profit involving money receipts directly or indirectly. Sales taxes have been broadened in scope to include all manner of business activity both as a practicable method of definition and as a method of securing all possible revenues.⁶

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Ibid., p. 148-149.

6

Ibid., p. 149.

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When the general sales tax is laid on the sale of services as well as on commodities it is necessary to define completely what services are taxable when sold. When the tax is levied only upon the sales of manufacturers and producers, as in Canada and Austria, the taxable transactions must be separated from other related transactions. The taxation of the sales of luxuries at retail makes unavoidable the definition of retail sales and their separation from all other sales. Close observation of the nations that collect sales taxes illustrates that the legislator and the tax administration will be confronted constantly with numerous problems of definition of taxable transactions.⁷

The Taxation of Sale of Service

Sales taxes differ in their bearing on services. Turnover taxes apply to services as well as goods, while wholesale taxes are imposed on transfers of goods only. However, there are certain types of services the sales of which are often not subject to the turnover tax. France and Poland do not apply their turnover taxes to the receipts of the professions. Public utilities are not taxable in France, Belgium, Italy, and Porto Rico. Newspapers and magazines are not taxable in Cuba, Porto Rico, and Ecuador.⁸

In some countries, however, the receipts of public utilities, contractors, hotels, restaurants and lodging places, commission men, brokers, banks, etc., are taxable and their taxation is the cause of many difficult administrative problems. Confusion and evasion tend

⁷ Ibid., p. 151

⁸ Ibid.

to follow where the same persons sell both service and commodities, and when their sales are taxed at different rates or under different conditions. Special taxation may be used to reach those selling service if business activities are classified. However, there are many individual peculiarities which render it exceedingly difficult to properly classify an undertaking.⁹

Taxation of the sales of services is difficult when the sales of service are partially exempt or are subject to a tax different from the tax on the sales of commodities. It is fortunate for the administration of the general sales tax that it is customary to exclude from its application the sales of personal service when the receipts for the service are in the form of wages and salaries. Barbering, dentistry, and other small trades may also be exempted because of the high costs of collecting taxes from such small concerns whose records are usually inaccurate and incomplete.¹⁰

The chief advantages to the government in taxing the sales of service are the larger revenues and the avoidance of charges of favoritism by making all classes of enterprise subject to the tax. The leading disadvantage to the government is the complex collection procedure necessary to distinguish the receipts for service from the other receipts and to collect the correct amount of tax due. In Germany this difficulty is largely avoided because the general sales tax is applied at a uniform rate to sales of commodities and service. The government, however, may be criticized for the lack of discrimination

⁹ Ibid.

¹⁰ Ibid., p. 151.

in the collection of the tax. It is often argued that because the fees of the professions and the rates of public utilities are not determined by competition, they should not be taxed because they can not shift a tax on their gross receipts. On the contrary, it seems only fair that their customers should be taxed like other consumers, if the tax can be shifted. It also seems fair that the sellers of service should feel some responsibility for the payment of a general sales tax, if the tax can not be shifted. More attention will be given the question of incidence in one of the following chapters. Through experience, the Philippines and Germany demonstrate that a tax on the sale of service can be collected when it is felt necessary to do so.¹¹

Sales of Land, Intangibles, Etc.

Taxes on the transfers of securities are usually, if at all, levied by a stock exchange tax in the countries collecting a general sales tax, as in France and Germany. Sales of land are seldom affected directly by general sales taxes, but are taxed by special transfer taxes in the various countries. There are only a few countries, as Austria, Hungary, and Yugoslavia, that have taxed capital value transfers with the general sales tax. Commodity transfers on the commodity exchanges are generally subject to special commodity exchange taxes, in the case they are taxed, as in Germany and France. Many of the difficult problems of general sales tax administration have been evaded by excluding these intricate cases

¹¹ Ibid., p. 152.

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from the application of the general sales tax, and by imposing specially devised taxes on the activity in question.¹²

Sales Tax Exemptions

Some years ago, with reference to internal consumption taxation, Bastable stated that the exemption of necessities from taxation must be contingent on the power of obtaining the required revenues from other objects.¹³ The same may be said today of the sales tax. Exemptions from sales taxes depend on the revenue requirements of each country and its particular economic, political, and social circumstances. When the finances of a nation are not in the pressing position where all possible revenues from every available source are required, some consideration may be granted to the equitable distribution of taxation on the basis of tax ideals determined beforehand. But it must be remembered that sales taxes have usually been resorted to as emergency measures to substantiate sufficient national revenues, and the legislators of sales taxes, in constructing the exemptions, have seldom given adequate attention to the various requisites of tax justice. In addition, sales taxes have been adopted by many nations which habitually depend upon consumption taxation to supply most of their revenues, and which, for that reason follow the usual course of taxing widely the consumption of the masses.¹⁴

In the countries collecting sales taxes, exemptions are given to certain transactions, persons, and objects for numerous

¹² Ibid., p. 153.

¹³ C. F. Bastable, Public Finance, p. 513.

¹⁴ Buehler, Op. cit., p. 153.

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reasons. Exemption may be granted prime foods to lessen the living costs of the people and to guard their consumption as a recognition of the political influence of the "vox populi".¹⁵ Canada and Porto Rico exempt necessities in general, and Italy, Hungary, Belgium, Cuba and Ecuador exempt certain foods which are classed as "necessities". The sale of bread is not taxed by the French Government, because this article is already taxed by the local governments.

Sales tax exemptions are often designed to favor industry. Import and export transactions are exempt from sales tax levies in Germany. This exemption is supposed to grant the local industries competitive equality or even advantage as compared with the foreign industries when production or marketing costs are compared. The actual benefits of this policy are questionable. Exemptions may also be given to certain raw materials to avert manufacturing from being unduly suppressed in its development.¹⁶

Government monopolies and industries whose rates are regulated by the government may be exempt, as in Belgium and France. The rates of such industries are regulated by public authority to benefit the public, and it is said that taxation would complicate this price fixing because it would be very difficult to compute and add the proper tax in many cases. For instance, the government monopolies of tobacco, alcohol, etc., are supposed to yield the government huge revenues equivalent to heavy taxation, and a general sales tax would increase the burden of an industry which is already taxed

¹⁵ Ibid.

¹⁶ Ibid., p. 154.

enough. The political factor is certainly important in such cases, and it is also certain that complaint would come from the patrons of government regulated industries if gross receipts were taxed. On the other hand, the objections of consumers are frequently exaggerated in importance, and many of the supposed difficulties in the taxation of government regulated business are purely imaginary.

For both administrative and political reasons, the professions are frequently exempted, in whole or in part. In France it is felt that it would be detrimental to the welfare of the arts and professions to collect the turnover tax from the receipts of physicians, lawyers, artists, architects, etc. Again, it appears that the political factor is no doubt given too much weight and that discrimination is shown. However, the small professions may be exempted for administrative reasons, together with other small business units, by the flat exemption of sales under a certain definite amount. This type of exemption is based on more rational grounds than the first.¹⁷

Agricultural enterprise is usually excluded from the application of the general sales tax by exempting farmers' sales of their own produce, the purchase of fertilizers and farming equipment, the sales of farmers' cooperative marketing associations etc. It would be exceedingly difficult to efficiently control tax collections from a great many farmers whose business records are scanty and incomplete. In some countries, as in France, the political power of the farming class is great, and they may play no small

¹⁷

Ibid.

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part in designing tax legislation. By creating a flat exemption of sales under a certain sum the farmer may be exempted without openly showing class favoritism.¹⁸

Small traders, artisans, and small establishments in general may be exempted for various administrative reasons. Here, again, the political factor makes its influence felt. The exemption of annual or individual sales under a certain amount serves to separate the small concerns. They may be entirely exempted or favored with a special treatment. Cuba and the Philippine Islands exempt small enterprises on account of the many difficulties which arise from any attempt to discover the taxable turnover of small merchants who do not keep sufficient records of their transactions. A similar policy is followed by France with respect to artisans. The heavy costs of collecting small taxes from numerous and widely scattered sources are likely to be exorbitant. Therefore, these exemptions may be justifiable from the administrative point of view. In addition, there is also the ever present political argument for exemption because the small sellers will always resist taxation.¹⁹

The exemptions of the sales tax laws are continuously influenced by politics, and this promotes frequent disputes over the justice of particular discriminations. In France the exemption of the peasant is assailed by the other classes as unfair discrimination in favor of the agricultural classes. Enterprises that operate on a larger scale charge that the exemption of small enterprises is based

¹⁸ Ibid., p. 155.

¹⁹ Ibid.

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on administrative injustice. This is especially true of complaints made by the larger enterprises in Canada.

Sales tax exemptions also affect the tax administration in other directions. The exemption of certain persons, transactions, or objects tends to foster a temptation to evasion by falsification of the facts. When a seller is subject only to a tax on a part of his turnover, it becomes a rather difficult task for the administration to compute accurately the amount of turnover to be taxed. Likewise, every exemption creates another exception or special case which does not aid the promotion of uniformity of the tax law. Instead, it adds to the complications of tax administration.²⁰

Imports and Exports

In most countries where sales taxes have been levied, it has been assumed that such taxes introduce a discriminatory element into the prices of articles of domestic production and manufacture as compared with the prices of articles of foreign production and manufacture. Efforts have been made to counterbalance this assumed discrimination by the levy of special taxes on the importation of competing foreign goods, and by relieving exported goods of a part of the burden, at least, of the domestic sales tax.²¹

However, it must be noted, a retail sales tax does not always involve a discrimination against domestic manufacture and production in favor of foreign goods. When foreign goods finally enter retail sale in the importing country they become subject to a retail

²⁰ Comstock, op. cit., pp. 113-115.

²¹ National Industrial Conference Board, General Sales or Turnover Taxation, p. 129. See Table I, page 35.

sales tax on the same terms as domestic goods. In the case of exported domestic goods, the retail sales tax may not have been applied to them before they were exported, so that they would enter the foreign markets unimpeded by any domestic turnover tax burden.

The importation of goods by a country levying a general sales tax or turnover tax from a country levying no such tax or a lighter turnover tax has been viewed by legislators as raising two independent problems. The first problem is that of protecting taxed domestic production from the competition of foreign production presumably free of any turnover tax burden. The second problem is that of protecting taxed domestic importers from the competition of foreign exporters supposedly not burdened by general sales or turnover taxes.²²

All of the countries collecting turnover taxes, except Germany, Czechoslovakia and Poland, tax the act of importation with a view to compensation for the premium on imports which, it is assumed, a turnover tax on domestic production and manufacture offers to foreign production and manufacture. It is usually recognized that, assuming a discrimination to exist, the mere taxation of the act of importation at the regular rate of the domestic turnover tax does not accurately compensate for the assumed discrimination, because the manufactured articles in the form in which they are imported are often the result of several turnovers, and the price of domestic articles at the same stage may include a pyramided tax much heavier than the statutory rate of the tax. The levy of a turnover tax at the statutory rate on the import value of the articles imported would not put them on a competitive equality from the standpoint of the turnover

²² Ibid., p. 130.

tax, unless the domestic turnover tax were levied in the form of a production tax, as in Canada. Austria consolidates its general sales or turnover tax by logically estimating for each imported article the consolidated rate which would have been levied upon the same domestic article at the same stage of manufacture. This consolidated rate is levied on the imported article, thereby placing imported articles on an equal basis with domestic goods as regards turnover taxation. This parity, however, is obtained only by long and complicated rate schedules which closely resemble customs schedules in their detail.²³

There are certain classes of imports that are usually excepted from special turnover taxes levied at importation. Raw materials essential to domestic industry, and in general not domestically produced, are usually exempted from import turnover taxes, although their succeeding transfers may be subject to the internal turnover tax. Foodstuffs and numerous other necessities when exempted from domestic turnover taxation, are usually excepted from the import turnover tax, since the domestic producer is not placed at a competitive disadvantage by the turnover tax. When imports are bonded for subsequent re-export after storage or after an additional process of manufacture they are either exempted from the import turnover tax or are granted a rebate of the tax on re-export. The tax law in Belgium also provides for the exemption of the import turnover tax in the extraordinary case where exported goods are re-imported by the original exporter without a transfer of title having taken place.²⁴

²³

Ibid., p. 131.

²⁴

Ibid., pp. 131-132.

When no turnover tax is laid on the act of importation, the domestic manufacturer or dealer who purchases goods from abroad through a foreign export house, which has in turn purchased the goods from a foreign manufacturer, pays no domestic turnover tax on the transaction. The domestic manufacturer or dealer who purchases his foreign goods through a domestic importer who has dealt directly with the foreign producer, pays on the transaction between the importer and himself. When a turnover tax is levied on the act of importation only one tax is involved in the purchase of foreign goods through a foreign export house, while on the other hand two taxes have to be paid if the purchase is made through a domestic importer. Taking for granted that the exporting country does not tax the transaction between the manufacturer who produces the exported goods and the exporter who directly negotiates the sale to the manufacturer or dealer in the importing country, importation through a domestic importer stands a heavier turnover tax burden than importation through a foreign exporter. Attempts have been made by some of the European countries levying turnover taxes to correct this assumed discrimination against domestic importers by a modification in the uniform application of the turnover tax.²⁵

The modification may be made in one or two ways. That is, it may be achieved by relieving the domestic importer of the tax on his resale, or it may be accomplished by placing a surtax on sales not made through domestic importers. The changes of the French tax law on this issue furnish examples of both forms of modification and

illustrate the numerous problems to which they give rise.²⁶

The French turnover tax law of 1920 levied a turnover tax on the act of importation. It also levied a surtax, doubling the rate of the turnover tax on goods imported from abroad without the intervention of a domestic importer or of the domestic branch of a foreign exporter. Not including the special provision, goods imported through a domestic importer or the domestic branch of a foreign export concern paid a turnover tax at two points. The tax was paid once on the event of their importation and again on their sale by the importer or the branch of the foreign house to the domestic purchaser. The surtax caused the levy of a double tax on goods purchased directly from abroad, thereby placing them, as far as the turnover tax was concerned, upon an equality with goods imported through a domestic importer, and protecting the latter from discrimination. This provision resulted in the payment of a double tax by French manufacturers on all imported raw materials necessary to their production. This was regarded as a restriction on French industry. It would seem that the most equitable solution of this hindrance would have been to have exempted foreign raw materials essential to domestic industry from all turnover taxes on importation. Instead, the French legislature, in the same turnover tax law of 1920, only abandoned the surtax on direct importation through foreign exporters when these exporters shipped goods originating in their own countries.²⁷

The protection given to domestic importers was practically destroyed by the exemption. Foreign export houses were free to

²⁶

Ibid.

²⁷

Ibid., p. 133.

ship goods produced in their own countries, regardless of whether they were manufactured articles or raw materials, to French purchasers without paying the surtax; they paid but one turnover tax on the transaction. A French importer, on the contrary, handling the same transaction had to pay two taxes, one an importation and another on resale to the French purchaser. In addition, fraud was quite common. Foreign exporters discovered that they could make up false evidences of origin and consequently ship goods from other countries into France without paying the surtax.²⁸

This French law was radically changed in 1925. The importation surtax was done away with completely, and a specified list of raw materials was instituted in its place. For the protection of the domestic importer, it was provided that his resale of such articles to domestic purchasers was exempted from the internal turnover tax. Therefore, whether a French purchaser obtained foreign raw materials directly from a foreign exporter or through a domestic importer, the imported goods reached him burdened by only one turnover tax.²⁹

The French allowed no exemption on the importer's resale of foreign manufactured articles obtained through a French importer, thus the goods reached the purchaser burdened by two turnover taxes. The importer, however, was protected by the levy of a special surtax in addition to the turnover tax on importation. This special surtax was levied on the purchase of foreign manufactured goods directly from abroad when these goods were to be consumed or used by the purchaser. This levy was called a "purchase tax", and it was equal in rate to the turnover tax. The "purchase tax" was not levied when the goods were

²⁸ Ibid.

²⁹ Ibid., p. 134.



resold in their original state. In 1926 the exemption from the "purchase tax" was extended to articles resold after further process of manufacture. However, administrative complications resulted from the "purchase tax", and, in view of the widespread exemptions under the 1926 amendment, it offered French importers little protection. In 1927 it was abandoned.³⁰

General turnover taxes or commodity transfer taxes necessarily work slightly to the disadvantage of the domestic importer, that is, they do to the extent that he must compete with foreign export houses shipping directly to domestic purchasers, if the exporting country does not levy a turnover tax or some other tax establishing a like burden on the purchases of the foreign exporting house. In fact, it is a common practice of many of the countries levying turnover taxes to exempt the purchases of export houses, and none of the countries levy any special tax on exporters that would counterbalance their exemption from turnover taxation. Seeing that the discrimination exists, it is not unreasonable for the countries levying turnover taxes to protect their domestic importers from it. The experience of the French reveals that counterbalancing importation surtaxes or "purchase taxes" on transactions with foreign exporters do not accomplish their purpose. This exemption can be given regardless of whether or not the act of importation itself is subject to turnover taxation. An exemption of the "first inland sale" after importation is a common attribute of European turnover tax laws.³¹

³⁰

Ibid

³¹

Ibid., p. 135.

The export problem in turnover taxation is the opposite of the import problem. There are also two aspects (a) the protection of domestic manufacture and production taxed under the turnover tax in its competitive struggle in foreign markets with foreign manufacture and production presumably free of any turnover tax burden, and (b) the protection of domestic export enterprises from a discriminatory tax burden as compared with foreign import concerns. Both problems are characterized by the same illusions as to differences in tax burdens on production and manufacture caused by turnover taxation and the same impossibility of complete logical solution on the basis of the presumed difference in tax burdens.³²

If it were true that a turnover tax laid a differential tax burden on domestic production and manufacture that would operate against it in foreign markets, correct reasoning would require that goods intended for export should be exempted from turnover taxation altogether or else that the full amount of the tax paid on each article should be refunded at the time of its export. It would be quite impossible to practice the first proposal because goods intended for export can not be separated from goods intended for domestic consumption in most stages of their production. Likewise, the second solution would be impractical because of the difficulty of determining the amount of pyramided turnover tax included in the prices of goods at the time of their export, unless the tax is a general excise or is consolidated, and because any such refund would act in many cases as a bonus to exporters and could not be depended upon to reduce the

prices of goods placed on foreign markets.³³

With the exception of Canada, Austria and Hungary, which offer refunds of the tax on exports in certain cases, the countries levying turnover taxes have been satisfied with exempting the export sale itself from taxation. Likewise, with the idea of protecting domestic exporters, the sales to such exporters are also usually exempted. Of course, the exemption of export sales and of sales to exporters tends to relieve the goods placed on foreign markets from the tax burden which might interfere with their position in these markets. However, this relief has very little, if any, relation to any differential turnover tax burden actually embodied in the prices of exported goods. Germany and Czechoslovakia, for a time, reversed this common procedure by taxing the sale to the exporter and refunding the tax on proof of export.³⁴

The Luxury Turnover Tax

All foreign countries having turnover taxes, except Canada, Cuba, Italy³⁵ and Poland, have at one time or another combined supplementary luxury turnover taxes with their other turnover taxes. These luxury taxes have supplemented the general turnover tax as a special tax on certain transactions in goods or services. The luxury tax is justified on social grounds as a means of heavier taxation of the consumption of the rich, and on political grounds because it tends to exempt the consumption of the masses. The general rate of the luxury tax is usually between ten per cent and fifteen per cent, and occasionally the rate runs up to twenty-five per cent. The levy is commonly

³³ Ibid.

³⁴ Ibid., p. 136.

³⁵ The high rates on the sales of a very limited category of luxury articles in Italy are effected through rate discriminations in that country's general sales or turnover tax, and not through a supple-

imposed upon importations and the sales of producers or retailers, other sales of the taxed article being exempt from this tax.³⁶

The administration of luxury taxes has been difficult because of the involved problems in attempting to define luxury consumption and the necessity of separating transactions subject to the high luxury rate from those subject to the low ordinary tax rate. The scope of the luxury tax depends upon the definition which legislators place upon the term "luxury". Obviously, the definition of "luxury" is inevitably arbitrary, and numerous disputes arise. Goods have been classified as luxuries, for taxation purposes, because of the nature of the goods, the materials used in the manufacture of the goods, the workmanship involved in their production, or because of price. Germany worked up a detailed classification of luxury articles, only to finally repeal the luxury tax.³⁷ With reference to luxury taxes Bastable has indicated that if articles are classed as luxuries because of the nature of the article, its workmanship, or the materials used in its manufacture, all available substitutes will also have to be taxed or else they will be used instead of the articles taxed.³⁸ Besides, it may be contended that superior quality is not a test of luxury, for superior quality may mean real purchasing economy and not extravagance. Seeing that the articles defined, as "luxuries" are often consumed by others than the wealthy, the payment of luxury taxes will not be restricted to the richer classes.

Similar obstacles develop when price is taken as the standard of luxury consumption. The luxury classification must be changed

³⁶ Buehler, op. cit., p. 156.

³⁷ Ibid.

³⁸ Bastable, op. cit., p. 540.

frequently, especially when prices are rising, or many articles will become luxuries for tax purposes without any revision in the intent of the law. On the contrary, when prices are declining the articles subject to the luxury tax will diminish in number, and the definition is again faulty.³⁹

Germany attempted to classify luxuries by listing specific articles as luxuries, but substitutes were at hand and the listing proved to be futile. France and Belgium have employed price standards with only a small amount of success.

The luxury taxes have been further complicated by considerations of foreign trade and the desire to favor import and export activities. It is possible that the lists of luxury articles have not been adequately detailed to make certain larger revenues and not enough consideration has been given the substitutes of the taxed articles available. There is usually an elastic demand for luxury articles, and their taxation can not be depended upon to produce large revenues. In addition, politics plays its part in luxury taxation, and it is obvious that politics were instrumental in the removal of luxury taxes in Germany.⁴⁰

Luxury taxes have frequently been levied on the renting of rooms and on the food, drink, and service of hotels, restaurants, and other concerns. The tax may be levied at a flat rate, as in Hungary or a graduated tax, as in France, where the rates are four per cent and thirteen per cent, according to whether the concern is classed as a semi-luxury or luxury establishment. Taxes on the sale of alcoholic

³⁹ Buehler, op. cit., p. 157.

⁴⁰ Ibid.

beverages may also be embodied in the luxury tax, as in France.

The various experiments with luxury taxation all substantiate the general conclusion that only so-called luxuries of universal consumption will supply large revenues, and when levies are imposed on articles like gasoline, tobacco, wines, etc., large revenues will be obtained, but it must be remembered that the rich are not being taxed at rates higher than those imposed upon the consumption of the poor.

CHAPTER V

COLLECTION METHODS OF SALES TAXES

Mode of Imposing Sales Taxes

In collecting a sales tax there are several points where the tax may be imposed. It may be levied on business activities in general, on the activities of producers and wholesalers, on retail transactions, or on some combination of business activities. Each method of imposing sales taxes implies certain advantages and disadvantages in its administration.

The customary method of collecting a general sales tax is its imposition on business transactions in general. All business is taxed and there is no discrimination. The tax will be very productive with a low rate, and since all business concerns are taxed, the revenues are obtained from many sources and this assures greater stability. The chief disadvantages met in any attempt to tax a great number of small enterprises may be evaded by a minimum exemption of a certain designated amount of total sales, or by the collection of a tax based on estimated annual turnover instead of monthly or quarterly turnover. Both of these methods are used in France. When the small taxpayers are not exempted they complain about the costs of accounting for tax purposes and frequently evade the law, making it extremely difficult to apply the idea of a uniform tax on business transactions. An additional disadvantage of this method of taxation is the tendency to encourage integration and "big business". A uniform collection of the tax from all concerns inevitably results in unequal burdens on purchasers and sellers, who

can be depended upon to protest the injustice of the arrangement.¹

Austria and several other countries confine the sales tax to the production and importation of commodities, and recently there is a definite trend to adopt the so-called production taxes as a systematic way of avoiding many of the numerous complications and inequalities of the uniform general sales tax. Collection of the tax is made less difficult by the fact that the number of taxpayers will be smaller, and integration will not necessarily be fostered by the tax system. The concerns taxed will probably keep better records, and taxes will be computed with less difficulty. Of course, the tax rate will be higher than that of a tax on all transactions to supply an equivalent revenue. However, if the rate of the manufacturers' tax be sufficiently high, the tax will be productive where manufacturing is well developed. It must also be remembered that the imposition of the tax at the place of production will add to the interest charges for carrying the tax until the consumer pays it, and as a result both the consumer and business may be injured by the cumulation of the tax burden. In addition, it is difficult to separate goods used in production from those for use in consumption, because the same commodity may be used both ways. If a producers' tax is levied, the tax discriminates against the producers, by placing the tax burden on them, and when the producers' tax rate varies with the class of the business or the commodity, its administration necessarily becomes involved and oppressive.²

On the other hand, some countries have taxed all sales except those at retail, as in Italy and Belgium, and in Canada until

¹ Alfred G. Buehler, General and Sales Taxation, p. 161.

² Ibid., p. 162.

1924, when the producers' tax was adopted. The scope of the tax is broader than the scope of a producers' tax, and the tax rate may be much lower to obtain an equivalent revenue. The elimination of the retailers from those liable to the tax relieves the administration of the almost impossible task of collecting the many small payments from the numerous small retailers, where the collection costs would be exceedingly great. Canada did not attempt to tax retailers for these very reasons. Taxes on all sales except sales at retail may be criticized because they discriminate in favor of the retailers, and they also encourage the integration of business.³

Again, the sales tax may be collected only at the point of the retail sale, as in some of the luxury turnover taxes, in the early payments tax of France and the initial sales tax of Italy. Retail sales taxation lays the tax near the consumer, and evades the heavy interest charges on business for carrying the tax after the article is produced. The tax is collected in one place, and it does not pyramid along through the multitudinous stages of production and distribution, and become a heavy tax. Business integration is not fostered to the extent that it is by taxes on all sales of commodities. Still, when the tax is collected from retailers the number of taxpayers is large and the tax control is bound to be difficult and expensive. Retailers frequently sell articles subject to both the ordinary and the luxury tax, and they find it necessary to keep the two sets of transactions separate. This adds to the costs of retailing and the costs of administration. It may be recalled that the retail

sales tax adopted by Italy in 1921, and the retail payments taxes of France were displaced by more general sales taxes which supply larger revenues with more efficient collections.⁴

Furthermore, a country may combine the several methods of imposing sales taxes, as in France, where there are a general turnover tax, luxury taxes on retail sales, and special production taxes. Combination inevitably complicates tax administration and promotes almost endless confusion in taxation. "The French tax represents an effort, which largely fails of its purpose, to combine all the advantages of the various methods of tax collection and to eliminate the disadvantages of each method". It has resulted from the attempt to compromise the tax administration and change the several conflicting groups of reformers.⁵

Administrative Organization

In collecting a sales tax the existing tax administration may be used, as was the case at first with Canada and France. In France the turnover tax administration was divided among the officials collecting indirect taxes, customs duties, and registrations. The arrangement placed heavy responsibilities on the officials involved and contributed to the confusion and lack of control which accompanied the French tax, soon resulting in placing administrative control with indirect tax officials. The arrangement in Canada was more successful in that the new tax received the services of trained experts in its collection and that the personnel was not inadequate as was the case in France. However, in both countries the taxpayers were compelled

⁴ Ibid., p. 163.

⁵ Ibid.

to compute their taxable turnovers and the correct amount of the tax due. The general feeling among the taxpayers was that the government was making business the real tax collector.⁶

After the new constitution had been accepted in Germany, tax collections were placed in the hands of the Reich and the turnover tax was collected by a division of the tax offices. Germany has been more successful in handling the administrative problems of the turnover tax than France, due, in part, to efficient and centralized control. The experience of these countries points out that whether a new organization is instituted or the existing one employed, a requisite to efficient tax collection is the expert auditing of business records.⁷

The administration may be highly centralized, as it is in Germany, or it may tend to be localized with central supervision as is the case in France. Centralized administration permits efficient tax control from a central office, and furnishes a personnel of experts. Finally, it promotes uniform tax practices throughout the entire nation. But, according to the German experience, the local divisions may be reduced to dependency upon the national administration, and the officials can not be depended upon to be familiar with local problems. On the contrary, local administration will tend to provide the services of officials acquainted with local conditions. This familiarity, however, may lead to carelessness.⁸

The tax administration is expected to furnish the prescribed forms for handing in tax returns and the provision of rules

⁶ Ibid., p. 164.

⁷ Ibid.

⁸ Ibid., p. 165.

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and regulations for the correct keeping of business records. It can not be mentioned too often that in order to have effective sales tax control adequate business accounts must be kept. The administration must also inspect the accounts of the taxpayers at frequent intervals to make sure the proper maintenance of accounts. Furthermore, the administration may have the task of educating the small taxpayers to the importance of keeping accounts and of overcoming the prejudice of the small concern to impart its business secrets to the tax collector. It is no easy task for the administration to obtain adequate statements of monthly, quarterly and annual business turnover which must be checked frequently from the thousands of taxpayers. The accounts of the small taxpayers have been found to be very inadequate in Germany, France, Canada, Poland and other countries.⁹ In the case of general sales tax administration, it is quite necessary to have a large administrative staff of well trained officials to handle all the records required.

The collection of sales taxes usually tends to place the responsibility for correct statements of taxable sales upon the taxpayer. His statement is the usual basis of tax computation. Obviously, the administration can not be expected to check each return completely, and a certain amount of evasion and of mistakes is bound to appear. One of the main hopes of the administration is to expose enough errors in tax computation to create an attitude of respect for the tax collector. The books of the taxpayer are frequently inspected, and at all times they must be open for the audit of the official. This method of collect-

⁹ Alzada Comstock, *Taxation in the Modern State*, p. 119 and Carl S. Shoup, *The Sales Tax in France*, pp. 68-69.

ion has the advantage of relieving the government of a large amount of the responsibility for correct tax payments, but it also increases the costs of conducting business and allows a certain amount of evasion. Although this system offers opportunity for misuse, sales taxes are not the only taxes which have relied considerably upon the taxpayers' declaration of the tax. Similar declarations have been employed in the income taxation of many nations, including the United States.

The periods of tax payment vary among the different countries according to the convenience of the treasury and the taxpayer. Quarterly returns have been favored by numerous nations because they are convenient for taxpayers and they supply the government with a uniform revenue. Quarterly returns also relieve the government and the taxpayer of the necessity of monthly returns, which involve more expense and labor to everyone concerned. However, experience has shown that there will be some variation in quarterly tax collections. This variation will be according to changes in the volume of business throughout the year and certain quarters will return heavier taxes than others.¹⁰

The large taxpayers may be required to make monthly tax returns, and small taxpayers may arrange for quarterly returns. The larger concerns usually keep detailed monthly accounts, and are better able to make monthly tax payments than the smaller concerns. The practice necessarily adds to the responsibilities of the business accounting personnel, and may stimulate numerous complaints. The monthly

¹⁰ Buehler, op. cit., p. 166.

returns also add to the duties of the administration but the government benefits by receiving a steady flow of monthly tax payments throughout the year.¹¹

Annual payments are sometimes allowed. They are more convenient for the taxpayer, but they may be inconvenient for the treasury, which may prefer more frequent tax payments.

The basic manner of collecting the commodity transfer taxes of Italy and Belgium is by revenue stamps attached to invoices or bills of sale, or by remittances accompanying duplicates of each invoice or bill of sale sent immediately to the revenue collector. This policy of collecting transaction taxes by means of stamps forces daily tax payments on the purchasers.¹²

The collection of taxes on articles or on the sales of articles by the affixation of stamps either to the articles themselves or to the evidences of their title or transfer, with adequate penalties for failure to affix such stamps, is possibly the simplest and most efficient method of tax collection. When the stamp is attached to the article itself, the evidence of payment or non-payment is apparent, and if the purchase as well as the sale of the unstamped article is penalized, attempts to evade the tax are minimized. The danger of detection is too great to be counterbalanced by the small gain represented by the amount of the tax.¹³

However, the risk of evasion is somewhat increased when the stamp is to be attached, not to the article, itself, but to the paper evidence of its title or transfer. In such cases it may be provided

¹¹ Ibid.

¹² National Industrial Conference Board, General Sales or Turnover Taxation, p. 81.

¹³ Ibid., p. 82.

that a non-stamped invoice or bill of sale can not be sued on or entered as evidence in court. Obviously, the risk of loss may be considered too great to be compensated by the gain from the evasion of the tax.¹⁴

Stamp taxes are practically self-enforcing whenever the attachment and cancellation of stamps is possible. Revenue is received by the government through the sale of stamps, and the expenses of tax collection are relatively small. This simplicity of tax collection and administration is not to be found in the Italian system of stamping or attaching remittances to duplicates of the original invoices or bills of sale. The taxpayer is compelled to keep the entire set of duplicates as cancelled by the tax collection office. These duplicates provide a check against his books if his accounts are inspected at any time. The system is not self-enforcing, but it does eliminate, however, the necessity of special accounting, either by the taxpayer or by the tax administration.¹⁵

The major disadvantage of basing the collection of a sales tax on the individual sales transaction is that it is not applicable to all types of sales transactions. It fails miserably in retail sales of articles of small value. The grocer or dry goods dealer does not make out a bill of sale for each sale nor can he attach stamps to all items he sells. Furthermore, all evasions that are actually effected can not be uncovered. The Italian commodity transfer tax is not weakened by this difficulty because retail sales to consumers are not subject to the tax although this exclusion of retail sales from the tax reduces the

¹⁴ Ibid.

¹⁵ Ibid.

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revenue possibilities of the tax. The Belgian turnover tax includes retail sales but exempts small sales. It is evident that evasion of the Belgium tax by retailers is widespread.¹⁶

From the sellers' point of view an additional disadvantage of a general sales or turnover tax collected on the individual sales transaction is the necessity of paying the tax in advance of payment for the sale. When the tax is paid quarterly or monthly, the seller is able to collect some of his payments and to have the use of the money so received before he pays the tax on these sales. Moreover, if the tax is collected through stamps or remittances on the occasion of each sales transaction, the seller is forced to advance the tax before receiving any of the sales money out of which the tax is paid. When goods are returned to the seller and all or part of the sales price is refunded, or when the buyer does not make his payments, the seller is put to the difficulty of obtaining refunds. On the contrary, when the tax is based on periodic accountings, the returned goods or defaulted payments can be set off against the taxable turnover of the period.¹⁷ Tax collection by means of stamps is practicable where the administration exercises collection control by frequent inspection of taxpayers' books and is successfully employed in certain cases, like the Philippine Islands. This mode of collection, however, is not generally employed because of the disadvantages involved, and where taxpayers are numerous and a large administrative personnel is required to check payments of the stamp taxes, there is very little if any gain to the government, through saving of expense. Taxpayers

¹⁶ Ibid., p. 83.

¹⁷ Ibid.

themselves may be depended upon to consider the practice a nuisance.¹⁸

Any possibility of levying a production tax by pinning the tax for individual commodities to specific manufacturers should be excluded from consideration. The alternative is to levy the tax on all manufacturers, and permit rebates in cases where a tax has already been paid or will eventually be on any commodity. This is the method followed in the administration of the Canadian Manufacturers' Excise.¹⁹

When the Canadian Government put a production tax into practice a more complex system of administrative procedure had to be developed. All manufacturers and all dealers who make more than half of their sales to manufacturers are licensed and listed by the Ministry of Finance, with appropriate penalties for failure to take out a license. The production tax applies to both manufacturers and licensed dealers. No tax is paid by members of these two groups on their sales to other manufacturers or licensed dealers. In general, this system tends to avoid multiple taxation of commodities. Such multiple taxation occurs only in the case of dealers who make some sales, but less than half, to manufacturers, and who consequently do not take out licenses. The manufacturer who sells partly finished goods to such a dealer must pay a tax on his sale, since the dealer is not licensed. The dealer resells to another manufacturer, paying no tax, and the second manufacturer, after completing the manufacture of the articles, must pay a second tax on them. These cases of double taxation, however, make up but a small portion of the total taxable turnover.²⁰

¹⁸ Buehler, op. cit., p. 167 and Harley L. Lutz, Public Finance, p. 340.

¹⁹ National Industrial Conference Board, op. cit., p. 89.

²⁰ Ibid., p. 90-91.

Production taxes on the Canadian model are practicable from the administrative point of view, but at the cost of uniformity and simplicity.

The Canadian tax is augmented by accounting complexity and by the requirement of monthly returns. This complication of accounting procedure for the taxpayer implies complication of checking procedure for the administration. To prevent evasion by taxpaying manufacturers and dealers who report tax-exempt sales to other licensed manufacturers or dealers when, in fact the sales were made to consumers or unlicensed dealers and were therefore taxable, the administration must compare the reports of tax-exempt sales by each taxpayer with the reports of purchases by other licensed manufacturers and dealers.²¹

Enacting the provisions into the tax law is one thing, making use of them is quite another and more difficult task. Tax agents have to go to many outside sources to check up on the taxpayers' statements, and they have also found it necessary to become versed in the intricacies of double entry bookkeeping.²²

In every country which collects a sales tax, provision should be made for the prompt and fair settlement of disputes between the taxpayer and the administration. In France disputes are settled in the administrative courts, and in Germany disputes are taken first before the local tax courts, from which appeal may be made to the higher courts. Disputes are inevitable and it is certain that the respect of the taxpayers will be enjoyed only as long as controversies are given a prompt and fair hearing.²³

²¹ Ibid., p. 92.

²² Shoup, op. cit., p. 50.

²³ Buehler, op. cit., 167-168.

Data are not available to show in any great detail the costs to governments of collecting sales taxes. The cost of collecting the Canadian sales tax has not been computed, but administrative officials have stated their opinion that the collection costs are low because the existing tax personnel was practically adequate to take over the sales tax administration when the tax was adopted in 1920. The German authorities, Popetz Kloss, and Grabower, have estimated that the costs involved in collecting the German turnover tax are lower than the costs for any other tax, except the transportation tax.²⁴ Of course, it is probable that the administrative problems and costs in collecting sales taxes have been underestimated by those who advocate these levies, and that they are somewhat more expensive of administration than has been anticipated.

The Problem of Evasion

There is a tendency to illegally escape every tax which a nation collects, and this tendency is certainly present in the case of sales taxes. Numerous opportunities for fraud are offered by sales taxes, and any attempt of the law to separate sales of luxuries from sales of ordinary articles, taxable transactions from non-taxable transactions, sales for business use from sales for consumption, sales at wholesale from sales at retail, etc., will tempt the dishonest taxpayer to evasion. He will neglect to report his transactions altogether or he may report them as subject to lower rates of taxation than the law intended.²⁵

²⁴ Ibid., p. 169.

²⁵ Ibid.

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Sales taxes have always led to a certain amount of misunderstanding which the dishonest taxpayer has generally turned to his advantage, hoping that his inaccurate returns would not be discovered, but if he were caught pretence could be made that he misunderstood the law. Efficient control of tax collections in France has been retarded by the lack of adequate personnel. The small taxpayers may not be essentially more dishonest than the big taxpayers, but there are more of them and their records are more often incomplete, thus inviting fraud. Moreover, the unpopularity of sales taxes among certain business elements has also fostered the evasion of the tax.²⁶

Less evasion is possible under the wholesale tax than under the retail. The individual concerns by their very nature are more prominent and better known or if not known, they are easier to check up on account of the size of their transactions. Furthermore, the very fact that their numbers are small simplifies the task of the government agents. The licensing of wholesalers, jobbers, and manufacturers in Canada and the use of stamps in Belgium for each transaction proved to be two effective ways of preventing evasion as well as effecting collection with a minimum of administration.²⁷

Wholesale taxes cost less to administer, at least as far as the government is concerned. Although actual figures for the cost of collection are not available, it is known that the early years of collection in Belgium and Canada necessitated but few additions to the financial staff. On the contrary, the turnover tax collectors in France were inexperienced and inefficient, and the result was that collection

²⁶ Comstock, op. cit., p. 120-121; Shoup, op. cit., p. 81 and Buehler, op. cit., 139.

²⁷ Comstock, op. cit., p. 120.

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costs were high. The collection of small amounts from smaller sellers under any turnover tax is an expensive procedure.²⁸

In France, an effective form of escape is that by which the merchant or manufacture appears to be transformed into merely a commission merchant, or a job-worker who does not buy and sell goods, but only handles them for the account of the real owners. The change may be genuine, and the tax agent can do nothing about it, as the tax can then be levied only on payment received for business services. Frequently, the change is in appearance only, and this form of fraud is difficult to detect. This is perhaps the hardest single administrative problem in the turnover tax in France. In fact, it has been largely responsible for the introduction of some of the replacement taxes which are likewise called "production taxes".²⁹

The French replacement taxes, suggested by the changes in administration of the luxury taxes on wines and on automobiles, were inaugurated in 1925. They seemed to offer a possible way out for legislators who had promised to abolish the turnover tax, but who knew that a substitute must be found to take the place of the turnover tax. All replacement taxes have certain points in common. A given commodity is declared entirely exempt from the domestic turnover tax and from the import tax, and a special tax is levied upon it at one of the early stages in its commercial life; for example, within France upon sale by the manufacturer. Furthermore, an import tax on the same goods or goods of a similar nature is levied. Some of the commodities under this regime

²⁸ Ibid., p. 120-121.

²⁹ Shoup, op. cit., pp. 53-54.

in France at present are: coal, coke, briquettes, lignite, brai mineral, meat, fertilizers, tea and coffee, sugars, sulphur and flour.³⁰

In the grain trade, French dealers continually attempted to appear to the tax agents as mere commission merchants, whether they were or not, and the distinction furnished a basis for unceasing dispute. Such cases of fraud are difficult to uncover, because of the vagueness of contracts, and this is detrimental both to the treasury and to business. The French Parliament passed a law in 1927 placing commission merchants in the same class as true buyers as concerned dealings in grains. Brokers, on the other hand, who are more easily distinguished because their papers show the names of the buyers and sellers they bring together, are kept under the former regime.³¹

Belgium has experiences some of the same difficulties, and therefore a number of replacements taxes have been substituted for a part of the sales tax there.³²

Evasion seems to be the chief practical problem connected with the operation of the Canadian tax. Men in business tend to find fault with other features of the system, but it must be remembered that their attitude towards the sales tax changes according to the way in which the tax affects their own particular interests. This variation is quite natural.³³

Numerous methods have been adopted for the purpose of evading the sales tax. Investigations have uncovered many instances where books have been arranged to prevent the auditors from determining the true

³⁰ Ibid., p. 279.

³¹ Ibid., p. 54.

³² Ibid., p. 55.

³³ T. M. Gordon, The Canadian Sales Tax, pp. 37-38.

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amount of taxable sales and from applying the proper tax. Again, books have been destroyed or duplicate sets have been kept in which only a portion of the business transactions were recorded.³⁴

In the past the inefficient inspection by government auditors has encouraged sales tax evasion. The Canadian Royal Commission on Customs and Excise has stated that "the audits made by the sales tax branch were superficial and inefficient, resulting in very considerable loss to the revenue". The institution of regular inspection by competent auditors will do much towards checking the evasion so common in the past. The appointment of competent auditors and the institution of rigid penalties for non-payment, together with provision for prompt and adequate action against delinquents makes it no longer a simple and easy manner to avoid paying sales taxes in Canada.³⁵

Evasion is not confined to the sales tax alone, but furnishes a momentous problem in nearly all tax systems, and does not in itself mark the sales tax as worse than other levies.

³⁴ Ibid., pp. 38-39.

³⁵ Ibid.

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CHAPTER VI

SALES TAX RATES AND YIELDS

Sales Tax Rates

The rule for fixing the rates of sales taxes was originally "What the traffic will bear". Today there is a closer adjustment of the rates to the needs of the respective treasuries. This has become possible only after the measure has been tried out for some years.¹

The early period of general sales taxation was an experimental period. France and Germany started out with low rate payments taxes, and found them complicated and unsatisfactory as revenue producers. They then turned to their general sales taxes. It could not be closely estimated what the yield of the new taxes would be, but with experience it was discovered what rates "the traffic would bear". The urgent need for revenue soon forced the turnover tax rates of France and Germany to the maximum.²

French Turnover Tax Rates

The rates of the French turnover tax have been increased from time to time to secure larger revenues. The ordinary rate of 1.1% prevailed until the upward revision of the law of March 22, 1924, when the tax rate became 1.3%. The local governments continued to receive 0.1% of the total taxable turnover, and the balance was given to the national government. The share of taxable turnover allowed to local governments has remained at the same figure in later laws. The

¹ Alzada Comstock, *Taxation in the Modern State*, p. 115.

² Alfred G. Buehler, *General Sales Taxation*, p. 159.

French Treasury was pressed for adequate revenues during 1925 and another increase in the rate of the turnover tax was suggested by the Minister of Finance, Paul Doumer. Consequently, the budget law of April 4, 1926 provided for a general tax rate of 2%. Sufficient pressure was exerted upon Parliament by retailers to force through a tax of only 1.3% on the retail sales of goods consumed on the premises. The tax on vendors of service and on intermediaries between merchants was fixed at 2.5%.³

A law of August 3, 1926, unified the ordinary turnover tax rate at 2% in order to do away with the confusing complexity which resulted from the many special cases and rates in previous laws. This rate has remained unchanged. In 1924 the 10% luxury tax of 1920 was raised to 12%. The law of 1926, already referred to, increased the tax on luxury establishments furnishing food, drink, and lodging to 13% and provided a special tax of 4% for establishments in the semi-luxury class. However, in the 1930-1931 budget the rate of the tax on articles classed as luxuries because of their price was lowered to 6%. The turnover tax rate on cream, butter, cheese, fish, game, and fresh fruits and vegetables was also reduced. In 1930 the tax rates on establishments in the luxury class because of the prices charged for food, drink, and lodging were reduced to 3% on semi-luxury and 10% on luxury establishments. No loss of revenue is expected from these tax reductions.⁴

German Turnover Tax Rates

The German turnover tax has been revised in various particulars since its adoption in 1918, although the laws of 1918 and 1919 form the

³ Ibid., p. 76 and Library of Congress Legislative Reference Service Summary of French Turnover Tax 1920, A. Bernard.
Changes in the French Sales Tax Laws Since 1921, A. Bernard.

⁴ Ibid., p. 76 and Carl S. Shoup, The Sales Tax in France, p. 358-359.

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3. The third part of the document discusses the importance of regular audits and the role of the auditor in ensuring the accuracy and reliability of the records. It also outlines the procedures for conducting audits and the responsibilities of the auditor.

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basis of the present tax. The original rate of the turnover tax upon ordinary transactions was 0.5%, and the rates upon transactions in luxuries were 10% and 20%. The tax was levied on the annual taxable turnover of business enterprise, calculated on a monthly basis. The luxury tax at the rate of 20% was laid upon certain transactions in precious stones; and the luxury tax at the rate of 10% was laid upon luxury goods in general, including antiques, sculptures, paintings, tapestries, pianos, etc. In some cases the luxury tax was collected from producers and subsequent transactions in luxury goods were taxed at the ordinary rate of 0.5%, while in other cases the tax was imposed upon sales at retail only.⁵

A law of December 24, 1919, established a higher rate general turnover tax in Germany. This increase in rate was in line with the general post-war policy of increasing taxation receipts. The luxury turnover tax was extended to apply to all articles not classes as necessities, and a retail luxury tax upon goods where purchasers could not be taxed conveniently was introduced. In addition, the scope of the turnover tax was extended as regards transactions in commodities and the sale of services. The tax applied to all business transactions not specifically exempt.⁶

The 1919 law raised the tax rate upon ordinary transactions to 1.5%, and luxuries were taxed according to a three-fold arrangement. First, a tax at the rate of 15% was imposed upon sales by manufacturers of articles classes as luxuries because of the nature of the materials used or the workmanship expended, including jewelry made of previous

⁵ Buehler, op. cit., pp. 98-100; National Industrial Conference Board. General Sales or Turnover Taxation, p. 167 and Library of Congress Legislative Reference Service - A list of Indirect Taxes in Certain Foreign Countries, pp. 19-20.

⁶ Ibid.

metals, cut glass, ceramics, leather articles, articles of carved wood, etc., or because of the nature of the utility of the articles, including jewelry not mentioned in the first group, paintings, sculptures, works of art, photographic apparatus, firearms, musical instruments, billiard tables, vehicles propelled by motor or used for amusement, furs, cosmetics, perfumery, etc. Secondly, a tax rate of 15% was imposed upon the retail sales of certain articles by merchants, including precious metals, works of art, floral decorations whose price exceeded 30 marks, riding and coach horses, live game, etc. Thirdly, a tax at the rate of 10% was imposed upon special transactions, including advertisements not used in public elections, renting of rooms if the rent by day or by night was 5 marks or over, the safekeeping of certain valuable objects, and the renting of animals for riding.⁷

Germany adopted a new constitution during 1919. This reorganized the financial administration and placed the powers of tax collection in the Reich. The turnover tax had been collected previously by the States, and much confusion and complication had resulted. The decree of December 13, 1919 unified the financial administration under a national code with full powers centralized in the Reich. Under the 1919 and 1920 laws the States received 10% of the turnover tax collections and the communes 5%.

By a revision of April 1, 1922, the rate of the general turnover tax in Germany was increased to 2%, the increase beginning retroactively January 1, 1922. Later amendments in 1922 and 1923 increased the rate of the tax to 2.5%, beginning with January, 1924.

⁷

Ibid., and National Industrial Conference Board, op. cit., pp. 166-170.

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3. The third part of the document discusses the importance of regular audits and reviews of the records. It states that audits are necessary to ensure that the records are accurate and complete, and to identify any potential areas of concern.

4. The fourth part of the document discusses the importance of training and education for all personnel involved in the record-keeping process. It states that personnel must be properly trained in the use of the record-keeping system and in the importance of maintaining accurate records.

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It was widely felt that a rate of 2.5% general turnover tax was too high; that it placed a heavy burden on German industry and on German living conditions, and the inclusion of the tax on export values was believed to injure Germany's position in international trade. Accordingly, the rate of the general turnover tax, was reduced, first to 2%, operative from October 1, 1924, and then to 1.5%, operative from January 1, 1925. The rate of the luxury tax was also lowered to 10%.⁸

Further lowering of the rate of the turnover tax was favored and in 1925 the rate was cut, first to 1.25% and later to 1%. The rate of the luxury tax was cut to 7.5%. Again in 1926 the rate of the turnover tax was reduced. The administration desired to bring the rate of the general turnover tax down to 0.5%, but the Reichstag set the rate at 0.75%. The luxury turnover tax was abolished.⁹

The law of April 15, 1930, advanced the German general turnover tax rate to 0.85% and imposed a turnover tax at the rate of 1.35% on enterprises having a total turnover the preceding year including tax free turnover in excess of a million Reichsmarks; on enterprises whose major business was retailing; and on that part of the turnover arising from retailing when enterprisers were not solely retailers.

The increased rates of the German turnover tax were the necessary outcome of the prolonged debate over methods of raising revenues. Much criticism had been given the low tax rate of 0.75%, which was instituted in 1926. It was believed by the German observers that a tax of 1% could be collected as easily as a tax at a lower figure.

⁸ Ibid.

⁹ Ibid.

It was pointed out by those in favor of a higher tax that business carried a tax of 2.5% in 1924 and that the pressing needs of the Reich for revenue demanded a higher turnover tax. Accordingly, the turnover tax rate was raised to 2% in December, 1931. This increase in the tax rate was the result of a drastic effort to attain budgetary equilibrium.¹⁰

Canadian Sales Tax Rates

The Canadian sales tax law of 1920 imposed a tax at the rate of 1% on sales and importations by manufacturers and wholesalers and a tax at the rate of 2% on importations by retailers and consumers and on sales by producers direct to retailers or consumers.

The Canadian sales tax has been revised frequently, since its adoption by Parliament in May, 1920. These revisions have been made to meet the changing financial requirements of the government. In May, 1921 rates were raised to augment collections. All sales of producers and wholesalers, unless otherwise specified, were taxed by the new law at the rate of 1.5% and importations by producers and wholesalers were taxed at the rate of 2.5%. Importations by retailers and consumers were taxed at the rate of 4% and the sales of producers direct to retailers and consumers were subject to a tax of 3%. A special tax was laid upon the sales of lumber, manufacturers' sales being taxed at the rate of 2% and their importations at the rate of 3%, with no further tax on resales.¹¹

The Canadian sales tax rates were again increased in 1922 and 1923 to yield larger revenues. The law of May 24, 1922 raised the tax rate on manufacturers' sales to retailers and consumers to 4.5%, and the

¹⁰ Buehler, op. cit., pp. 103-104.

¹¹ Ibid., pp. 117-120; T. M. Gordon, the Canadian Sales Tax, pp. 11-24. and Library of Congress Legislative Reference Service, Canada, Summary of Sales Tax Legislation 192-1931
A list of Indirect Taxes in Certain Foreign Countries, p. 6.

ordinary tax on sales of wholesalers and sales by manufacturers to wholesalers was raised to the rate of 2.25%. The sales of lumber by manufacturers were now taxed at the rate of 3% and their lumber importations were taxed at 4.5%; importations of other commodities by manufacturers and wholesalers were taxed at the rate of 3.75%; and importations by retailers and consumers were taxed at the rate of 6%.¹²

The law of 1922 remained in force until the end of 1923, when a new sales tax law which limited the tax to the sales and importations of licensed manufacturers, or producers was introduced. The rate of the new producers' tax was fixed at 6%. Shortly after the new sales tax had become effective, the tax rate was lowered to 5% upon sales and importations by manufacturers and producers and upon importations by others. The rate of the manufacturers and producers' sales tax remained at 5% until February 18, 1927, when it was lowered to 4%. The tax rate was cut to 3% in 1928, to 2% in 1929, and to 1% in 1930. These reductions in the rate of the sales tax were accompanied by reductions in the rates of other taxes, especially the income tax, as the economic position improved. There were two sets of forces at work forcing the unusual rate reductions in the sales tax. First, with the betterment of the budget it was possible to reduce taxes in general. Secondly, increased opposition to the sales tax had developed, and a policy of gradual withdrawal of the sales tax had been announced by the government.¹³

However, in the Canadian budget for 1931-32 the rate of the sales tax has been advanced to 4%, and increased rates have also been established for the other taxes with the purpose of obtaining larger revenues.¹⁴

¹² Ibid.

¹³ Ibid and National Industrial Conference Board op. cit., pp. 185-188.

¹⁴ Ibid.

Belgian Sales Tax Rates

The Belgian Commodity Transfer Stamp Tax of 1921 was imposed on all transactions in commodities, excepting only retail sales, at the general rate of 1%. A tax at the rate of 5% was laid on meals and lodging above a fixed price and on the sale of specified luxury articles. A series of taxes on commissions, on transportation and transmission, on stock transfers and on display advertising built up the commodity transfer tax to somewhat of a general turnover tax.¹⁵

The law of January 2, 1926 revised both the ordinary tax and the luxury taxes. The rate on transactions in ordinary articles was changed to 2% and the rate upon transactions in specified luxuries was fixed at 6%. A later law in 1926 taxed transactions in certain articles at the rate of 4% that had formerly been taxed at the rate of 2%, and taxed sales of goods for export at rates similar to those on domestic transactions. In the 1930 budget the rate of the tax on ordinary transactions was reduced to 1% on domestic transactions and imports; the luxury tax that formerly ranged from 6% to 10% was made a flat rate luxury tax at 6%; and the former 4% tax on pharmaceutical supplies has been lowered to 2%. The transfer tax has been withdrawn from export transactions. In the tax revision of 1931, the ordinary rate was raised to 2%, the rate on pharmaceutical supplies and some other articles to 4%, and the luxury rate to 8% in general.¹⁶

¹⁵ National Industrial Conference Board, op. cit., p. 125;
Buehler, op. cit., pp. 135-137.

¹⁶ Ibid and Library of Congress Legislative Reference Service,
A List of Indirect Taxes in Certain Foreign Countries, p. 3.

Turnover Tax Rates of Austria

A general basic rate of 1% on sales of goods and services by industrial enterprises became effective on April 1, 1923. The rate of the tax for each commodity varied according to the number of transactions in that commodity, and a table of rates was provided for taxable commodities. Imports were taxed at rates higher than the domestic taxes. Rebates were allowed on export transactions. A luxury tax at the rate of 12% was also enacted. In 1924 the basic rate of the tax on ordinary business transactions was raised to 2%, and by a decree effective March 1, 1926, the entire turnover tax on exported commodities was refunded. Under the law in force in 1929 the basic rate of the turnover tax on commercial transactions continued at the rate of 2%, and the luxury turnover tax, levied on retail sales only, was collected at a general rate of 10%, but in some cases the luxury tax amounted to 18%.¹⁷

Turnover Tax Rates of Poland

The basic rate of the Polish Turnover Tax of 1923 was 2%, but amendments in 1925 provided for complicated discriminations. Dealings in articles of "first necessity" and in raw materials necessary for the development of domestic agriculture and industry were taxed 0.5%. The retail trade in foodstuffs and sales to industrial concerns for further manufacture or for use in their own industries were taxed 1%. A rate of 5% was levied on commissions and other remuneration of commission merchants or commercial middlemen. The tax law gave the Minister of Finance, in conjunction with the Minister of Commerce, the

¹⁷ Buehler, op. cit., pp. 138-139 and
National Industrial Conference Board, op. cit., pp. 176-180.

power to lower the tax rate by as much as 1% in the case of specific wholesale dealers and in the case of exports.¹⁸

Under the law of 1928, the Polish turnover tax continued as a general tax at the rate of 2% upon sales of merchandise by producers and merchants, excepting that retail sales of food and sales of raw materials were taxed at the rate of 1%, and wholesale transactions in prime necessities and raw materials necessary for the development of agriculture were taxed at the rate of 0.5%. A license charge, at varying rates, supplemented the turnover tax and was applied to industry, commerce and the professions.¹⁹

Italian General Sales Tax Rates

A business turnover tax, which was established in Italy by the law of November 24, 1919, separated luxuries and necessities, taxing the former at 10% of the retail price and the sales of the latter at 2%. In addition to the flat rate tax on sales of luxuries at 10% there were special luxury taxes at higher rates. The original law was modified by later laws, and a new transfer tax was collected in 1923. The rates of the transfer tax, as applied to sales involving over 100 lire were 0.5% for articles classed as raw materials, 1% for articles classed as manufactured and semi-manufactured products, and 2% for articles classed as luxuries. Sales under 100 lire were taxed at lower rates. The tax collected in 1932 is essentially the same as that instituted in 1923. In 1927 the tax rates were revised and were set at 0.5% on transactions in raw materials and at 1% on transactions in manufactured and semi-manufactured goods, where the

¹⁸ National Industrial Conference Board, op. cit., pp. 182-183; Buehler, op. cit., pp. 139-142.

¹⁹ Buehler, op. cit., pp. 139-142.

transfer in question exceeded 100 lire in value. Transactions in luxuries were also taxed at 1%. Transfers under 100 lire in value were taxed at low and graduated rates.²⁰

In 1930 Italy, like Germany, Canada, and other countries found it necessary to modify her sales tax policy, due to a shortage of revenues with the general world wide depression. Consequently, the transfer tax was increased in rate, and a uniform rate of 1.5% was introduced. In 1931, the tax rate was advanced to the high level of 2.5% to produce larger revenues.²¹

Hungarian Turnover Tax Rates

The general sales tax of Hungary was introduced on September 1, 1921 as a tax at the rate of 1.5% on the sale of both goods and services. The ordinary tax was supplemented by a luxury tax at the rate of 10%, and imports were taxed at similar rates depending on whether they were classed as ordinary articles or as luxuries. The Financial committee of the League of Nations, in 1922, discovered that the tax rate on ordinary imports amounted to 3% at times. This rate was considered excessive and was lowered to a maximum of 2%.²²

In 1926 the rates of the turnover tax were fixed at 2% for ordinary articles and 10% to 25% for luxuries. The practice of refunding the tax to exporters was initiated in 1926 to encourage exporting. During 1927 the turnover tax on the sale of eggs, milk products, and vegetables was abolished, and the tax rate on the sale of meat was lowered. Hungary has finally adopted a policy of introducing production taxes

²⁰ Ibid., pp. 131 - 134; National Industrial Conference Board, op. cit., pp. 176-178 and Library of Congress Legislative Reference Service. Sales Tax in Italy.

²¹ Ibid.

²² Buehler, op. cit., pp. 281 - 282 and National Industrial Conference Board, op. cit., p. 181.

where they are practicable.²³

Turnover Tax Rates of Czechoslovakia

The law of December 11, 1919, introduced the Czechoslovak general tax at the rate of 1% on the transfers of ordinary articles and services and at the rates of 10% and 12% upon luxuries. In 1921 the general rate of the ordinary turnover tax was raised to 2% and the luxury taxes remained at the rates of 10% and 12%. Under the law of December 21, 1923 importations were subject to the ordinary turnover tax of 2%, excepting that the rate on importations of most agricultural products was 1%, and importations of luxuries were still subject to the luxury taxes at the rates of 10% and 12%. Domestic transactions in agricultural products were favored by a 1% tax in 1921. A law of 1923 imitated the Austrian plan of modifying the basic rate of the ordinary turnover tax in certain cases according to the number of stages of production and distribution for a commodity. Instead of taxing every transfer of the commodity, only one tax was collected. The tax remains practically the same since its revision in 1923. The production tax principle, however, has been extended in its application.²⁴

Turnover Tax Rates of Rumania

The Rumanian general tax upon business in 1921 taxed the total turnover, or receipts, of business at the rate of 1%, excepting exports. The sale of specified luxury goods was taxed at the rate of 15%, and the sale of other luxury goods was taxed at the rate of 10%.

²³ Ibid.

²⁴ National Industrial Conference Board, op. cit., pp. 181-182; Buehler, op. cit., pp. 286-288 and Library of Congress Legislative Reference Service - A list of Indirect Taxes in Certain Foreign Countries, p. 11.

The turnover tax was extended to exports in 1927, which were taxed at the rate of 1% of their average value. The tax rate on ordinary articles was raised to 2%. The rates of the turnover taxes were increased 10% in 1929. The ordinary turnover tax rate was raised to 2.2%. However, some articles were taxed at the rate of 1.1%, and luxury tax rates were raised to 11% and 16.5%. The tax on exports continued at the rate of 1%.²⁵

Sales Tax Rates of Turkey

In 1926 Turkey imposed a general tax upon sales and business transactions completed within the country at a rate of 2.5%. This tax was repealed the following year and a tax upon manufacturers' sales at the rate of 6% was enacted. Importations were taxed at the rate of 6%, and exportations were favored with a tax at the rate of 2.5%, provided a production tax had not already been paid, when they were exempted from the export tax.²⁶

Turnover Tax Rates of Yugoslavia

In 1921 Yugoslavia adopted a general turnover tax at rates of 1% upon sales of ordinary articles and 10% upon sales of luxuries. No material modifications were made in scope or in rates of the turnover tax until 1931, when the tax was transformed into a system of lump sum turnover taxes. The basic rate of 1% was continued, and the new fixed tax rates average from 1% to 3.5% on most articles, and from 3.5% to 12% on luxuries.²⁷

²⁵ Buehler, op. cit., pp. 288-289; National Industrial Conference Board, op. cit., p. 183.

²⁶ National Industrial Conference Board, Loc. cit., Buehler, op. cit., p. 293.

²⁷ Buehler, op. cit., p. 294.

General Sales Tax Rates of Portugal

In a law of September 15, 1922, Portugal included a tax on business turnover at the rate of 1% on ordinary transactions and a tax of 10% on transactions in luxuries. Luxury establishments furnishing board and lodging were taxed 10% of receipts, first class establishments were taxed at the rate of 5%, and second class establishments were taxed at the rate of 3%. In addition, a tax of 2% was imposed on the box receipts of theaters. The turnover tax also applied to importations at rates equivalent to the rates on domestic goods.²⁸

Sales Tax Rates of Soviet Russia

Since 1921, the Soviet government of Russia has levied a combined license and turnover tax on manufacturers and merchants. No general tax rate is fixed, but a schedule with 156 classifications establishes independent rates for various classes of business enterprises. The average rate for manufactures is 1.25%, wholesalers 1% and retailers 1.5%; additional local turnover taxes may double these rates. The rates on cooperative associations are reduced by one-half on dealings with their own members and by one-fourth on dealings with outsiders. The tendency is to tax private enterprises at a higher rate than state or cooperative enterprises. Wholesale dealings in a specified list of luxury articles are taxed 4%, and retail dealings in those articles 6%. Prior to 1927, the administration had the power to raise or lower the turnover tax rate for concerns in exceptional circumstances but this power was abolished in December, 1926, and the tax is now based on a fixed schedule.²⁹

²⁸ Ibid., p. 285 and Library of Congress Legislative Reference Service.
A List of Indirect Taxes in Certain Foreign Countries, p. 37.

²⁹ National Industrial Conference Board, op. cit., pp. 183-184.

Sales Tax Rates of Mexico

The Mexican general Stamp Tax is basically the same as the general Stamp Tax of 1906. In 1921 the tax applied to the sales of commodities at wholesale or retail at rates varying from 1% to 2%, according to the nature and the amount of the sale. During 1927 the 5% sales tax on textile mills was raised to rates of 8% to 13% of sales. When goods are sold by public documents the tax is 70 centavos, or 0.7%, for each 100 pesos of value, or fraction thereof, and in other cases the tax is 5 centavos, or 0.5%, for each 10 pesos or fraction thereof, except with reference to sales of alcoholic drinks, which are taxed at the rate of 2%.³⁰

General sales taxes are collected by about half of the Mexican states. The common tax rate is 2%, but rates of 1% to 3% are also employed, and sales at wholesale are generally taxed a lower rates than sales at retail.

Cuban Gross Sales Tax Rates

The Cuban gross sales tax law adopted on October 9, 1922 established a general sales tax at the rate of 1%. A law of July 6, 1928 codified and revised the previous laws. All merchants and industrialists are subject to a tax at the rate of 1.5% upon the sale, exchange, or transfer of merchandise. A law was passed in 1931 which gave the President the authority to raise the tax rate on importing to 7.5% and laid special luxury taxes on certain commodities, hotels, and cafes. The tax rate of 7.5% has never been made effective, and, therefore, the tax rate of 1.5% has remained in force on domestic sales

³⁰ Buehler, op. cit., pp. 295-297.

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and imports. In addition, an emergency tax law was passed in 1932 which has authorized the President to increase the rate of the 7.5% tax to 10% if the occasion demands it.³¹

Gross Sales Tax Rates of Ecuador

A general sales tax law of October 23, 1924 levied a tax at the rate of 1% in Ecuador on the gross value, or price, of all commercial and industrial articles sold or transferred, whether partially or fully manufactured, of domestic or foreign origin. Under the codified sales tax laws of 1930, the tax is collected at the rate of 1%.³²

Turnover Tax Rates of Bolivia

In 1923 Bolivia established a tax at the rate of 0.5% upon commodity transfers and a tax at the rate of 2% upon the sale of commercial services. The rates of the tax have remained basically the same. The tax rate is doubled if the tax is not paid by the 10th day of the month when the tax is due.³³

Brazilian General Sales Tax Rates

In 1924 Brazil introduced a general Stamp Tax on commercial sales at rates of 1% on sales at wholesale and 2% on sales at retail, with special rates as low as 0.5% in certain cases.

General Sales Tax Rates of Australia

The Australian sales tax, adopted in 1931, was imposed at the rate of 2.5% upon the sales of manufacturers and producers for home

³¹ Ibid., pp. 297-299.

³² Ibid., p. 300; National Industrial Conference Board, op. cit., p. 185.

³³ Buehler, op. cit., p. 301.

consumption and upon imported commodities consumed in Australia. With the objective of augmenting tax revenues, the sales tax rate has been raised to 6%.³⁴

Philippine Sales Tax Rates

The Philippine Revenue Law of 1904 imposed a 0.333% tax on the gross sales of commodities which were destined for consumption. In 1905 the tax was levied on sales for export and a tax at the rate of 1% was imposed upon gross receipts of common carriers. In addition, a supplementary tax of 2 pesos on merchants, manufacturers, and common carriers was imposed. In 1914 a fixed tax of 2 pesos per annum and a tax at the rate of one-third of one per cent upon the gross receipts of printers and publishers, contractors, warehousemen, proprietors of dockyards, persons selling light, heat or power, persons engaged in conducting telegraph or telephone lines, or exchanges, and the keepers of hotels and restaurants was added.³⁵

In 1915 the tax rate on the gross receipts of merchants, printers and publishers, etc., was raised to 1%, and in 1923 the tax rate on the sales of merchants and manufacturers was raised to 1.5%. In 1917 steam laundries were made subject to the tax of 1% upon the gross receipts of printers, publishers, etc. The rates of the Philippine sales tax have remained without being changed since the revisions mentioned.

³⁴ Ibid., pp. 393-304 and Library of Congress Legislative Reference Service, The Sales Tax in Australia (Andre Bernard, March 15, 1932).
³⁵ Buehler, op. cit., pp. 142-444; National Industrial Conference Board, op. cit., pp. 203-204; Library of Congress Legislative Reference Service, A List of Indirect Taxes in Certain Foreign Countries, pp. 34-35.

Sales Tax Yields

It is becoming customary to consider the productivity of a tax before any other feature. The earlier economists, like Adam Smith, were deeply concerned with such factors as equality and convenience, but today equality and convenience have to give way to productivity as the leading qualification of a good tax. However, it must be kept in mind that the successful administration of the State is the fundamental objective of any revenue system, and there is little to be gained from the discussion of the other qualifications of a tax if a considerable revenue is not assured.³⁶

Of course, the productivity of a tax has been long considered its primary qualification by ministers of finance. It is to be expected that those in charge of the finances naturally rate the merits of a tax according to the amount of its yield, because the real objective of the revenue system is to provide for the maintenance of the State.³⁷

Under emergency conditions, such as war, productivity or as Lutz calls it, "fiscal adequacy" becomes not merely the first test, but the only test that is applied.³⁸ The necessity of this was recognized by Adam Smith, and in 1776 he stated that after all the proper subjects of taxation have been exhausted, if the exigencies of the State still continue to require new taxes, they must be imposed upon improper ones. He also pointed out the taxes upon the necessities of life, therefore, may be no impeachment of the wisdom of that

³⁶ T. M. Gordon, *The Canadian Sales Tax*, p. 24.

³⁷ *Ibid.*

³⁸ H. L. Lutz, *Public Finance*, p. 276.

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republic, which, in order to acquire and to maintain its independency, has, in spite of its great frugality, been involved in such expensive wars as have obliged it to contract great debts.³⁹

The capacity of the sales tax to yield huge sums even when levied at a low percentage rate is one of its distinguishing characteristics. The yield of the sales tax varies in every country according to changes in the volume of taxable transactions, changes in the scope of the tax and its rates, and the efficiency of the tax administration. An important factor which affects the yield of the tax is the stage of economic development of a nation. The tax yield may be great, where commercial and industrial transactions are great in volume. On the contrary, where commerce and industry are in a low stage of development, as they are in some of the smaller nations which employ sales taxes, the tax yield is necessarily limited. Within limits, the yield of a sales tax is elastic. The turnover tax of France was enacted as an emergency measure and its yield corresponded to the needs of the treasury as expressed in the increased rates. The small payments of the general sales tax by the numerous consumers assure large revenues, convenience of payment, and a minimum of resistance on the part of taxpayers.⁴⁰

Yield of the French Turnover Taxes

The importance of the yield of the turnover tax to the French treasury can scarcely be over-estimated. The first eight

³⁹ Adam Smith, *The Wealth of Nations*, Chap. II, Part II, Art IV., p. 505.

⁴⁰ Comstock, *Taxation in the Modern State*, p. 121; Buehler, *op. cit.*, pp. 170-171.

years of its life were years of severe fiscal difficulty. This type of difficulty is not peculiar to post-war years as far as France is concerned, but were due in large part to over-anticipation of reparation payments. The turnover tax soon became the most trustworthy tax in this critical period. Of course, it would seem to be susceptible to sharp decreases in periods of business depression, but it has stood up well in such times.⁴¹

The yield of the French turnover tax has increased steadily since its levy. In 1920, the retail sales tax and luxury tax combined produced fr. 942.2 millions, and the change to a commodity transfer tax more than doubled the yield of the French turnover tax. The revenue from this source in 1921 was fr. 1,910.6 millions, 17.7% of the internal revenue and 15% of the total tax revenue for that year. Rate increases and improved administration have steadily increased the yield of the French turnover tax, and its relative importance in the French national tax system has increased. The fr. 7,488.5 millions collected from the French turnover taxes in 1926 represented 23.2% of the internal tax revenue and 21.2% of the total national tax revenue. Since 1926, the turnover tax has become one of the most important taxes of France, its only rival being the income tax.⁴² The tax is based upon sales and not upon profits; therefore, its yield is guaranteed to continue, although business depression, like that of 1921, causes marked reductions in revenue. The tax is based upon the prices charged for commodities and service, and fluctuations in the purchasing power of money will not affect its yield as seriously as that of the

⁴¹ Comstock, op. cit., pp. 134-135.

⁴² National Industrial Conference Board, op. cit., pp. 173-174.

income tax or other non-ad valorem taxes. The turnover tax is automatically increased when inflation starts and automatically decreased when deflation starts. It was this feature of the turnover tax which made it a most important asset to France during the period of severe monetary inflation after the war. In addition, the yield of the turnover tax has been sufficiently elastic to allow its extension when increased revenues have been necessary.⁴³ Even though the turnover tax does not furnish a large part of the local governmental revenues, nevertheless the fact that it supplies four or five per cent of the revenues of the communes and six or seven per cent of the revenues of the departments is of enough importance to require much care in distributing the proceeds of the tax.⁴⁴

Yield of the German Tax

While the German turnover tax is relatively less important in the revenue system than the French turnover tax, it has been surpassed in yield only by the income tax and customs duties.⁴⁵

During its early years, the yield of the turnover tax proved a severe disappointment to the German treasury authorities. When the proposal for the 1916 turnover stamp tax was before the Reichstag, it was predicted that the annual yield would be M. 225 millions, and during the twenty-two months of its operation, the tax produced only M. 221 millions. The 1918 tax was expected to yield M. 1,200 millions annually for the national treasury, exclusive of the

⁴³ Buehler, op. cit., pp. 93-94 and Shoup, op. cit., Chapter XV.

⁴⁴ Ibid.

⁴⁵ Buehler, op. cit., p. 113.

15% of the total yield earmarked to the states and local governments. It was soon seen that the expectation would not be realized, and in the 1919 budget only M. 960 millions were attributed to the turnover tax.⁴⁶ The total receipts for the fiscal year ended March 31, 1920 were M. 803.7 millions, and 15% of this was passed to the states and localities.

Nevertheless, with improved tax administration, with increased rates, and with economic recovery of German Industry and business, the yield of the turnover tax increased. The period of the greatest relative yield was from April, 1924 through March, 1925, when the general turnover tax together with the luxury taxes produced R. M. 1,913.6 millions, 27.5% of the federal internal revenue and 25.2% of the federal governments total tax revenue. After 1924, there have been reductions of the rates of the tax, and the luxury turnover tax has been abolished. Consequently, the annual yield has been reduced. Since 1926 it has been under R. M. 1,000 millions. The German turnover tax has proved to be elastic and subject to change, within limits.⁴⁷

Yield of the Belgian Turnover Taxes

The Belgian transfer tax has maintained and even improved upon its early position as a revenue-producer. The rate increases of the Belgian turnover and luxury turnover taxes have given these taxes a first place in the Belgian tax system as revenue producers. Prior to the rate increase of 1926, these two taxes supplied fr. 480 millions annually, 13.6% of the national revenue and 11.6% of the total national

⁴⁶ National Industrial Conference Board, op. cit., pp. 169-170.

⁴⁷ Ibid.

revenue. In 1928 the yield of the turnover and luxury turnover taxes had quadrupled, while the national tax revenue, as a whole had only doubled. The fr. 2,160 millions of turnover tax revenue in 1928 represented 27.2% of the Belgian internal tax revenue and 23.9% of the total national revenue.⁴⁸

Yield of the Austrian Turnover Tax

The Austrian turnover tax is the most important of the national taxes, but it is closely rivaled by customs duties. The taxes on luxuries are yearly yielding relatively less revenue. Austria places more dependence on the turnover tax as a major element of its national tax system than any other European country. The first year it produced Sch. 202.7 millions, 29% of the national internal revenue and 23.9% of the total national tax revenue. During 1927 the yield of the tax increased to Sch. 237.1 millions, 30.8% of the national internal revenue and 22.5% of the total national tax revenue.⁴⁹

Yield of the Italian Turnover Tax

The Italian transfer tax has not provided the same huge revenues as the general sales tax of France, Germany, and Austria. In fact, the yield of the Italian tax has been relatively insignificant, although the tax has gradually increased in importance in the fiscal system.⁵⁰

Without changes in the rate schedule or the essential structure of the Italian turnover tax, its yield increased from lire

⁴⁸ National Industrial Conference Board, op. cit., p. 176 and Comstock, op. cit., p. 140.

⁴⁹ Buehler, op. cit., p. 139 and National Industrial Conference Board, op. cit., p. 180.

⁵⁰ Buehler, op. cit., pp. 133-134.

271.7 millions for the fiscal year ended in June, 1923 to lire 889.5 millions for the fiscal year ended in June, 1926. In 1926 the revenue from the tax represented 7.6% of the national internal revenue and 6.1% of the total national tax revenue. The increase in yield was brought about by improvements in tax administration through continued experience, currency depreciation and growth of Italian business.⁵¹ In the fiscal years ended in 1927 and in 1928, as the value of the lire increased, the yield of the Italian tax fell off, as did the yield of the Italian taxes generally, and in 1928 the revenue from the Italian turnover tax was lire 642.7 millions.⁵²

Yield of the Canadian Sales Taxes

The merit of productiveness cannot be denied the Canadian sales tax. From its beginning it has taken a place among the chief revenue-producing taxes of the Dominion. In the fiscal year ended March 31, 1921, the commodity transfer tax of 1920 produced \$38.1 millions, 18.6% of the dominion internal revenue and 10.3% of the dominion tax revenue, including customs receipts. It was slightly more productive than the excise and but little behind the business profits and the income tax.⁵³

In the year 1921-22, with rates increased fifty per cent for domestic sales and still higher for importations, the tax produced 61 million dollars, which formed 16 per cent of the total revenue.

⁵¹ National Industrial Conference Board, op. cit., p. 178.

⁵² Ibid.

⁵³ Gordon, op. cit., pp. 24-25 and National Industrial Conference Board, op. cit., p. 188.

However, it must be noted that the price level took a great drop from 1920-1921, so that the actual figures of sales tax receipts in themselves do not furnish a satisfactory basis for comparing the tax's productivity for these two years.

In 1922-23 sales tax rates were increased fifty per cent, and revenue receipts collected increased fifty per cent. 91 million dollars was obtained through the sales tax, 23% of the revenue. The sales tax had now passed the income tax in productivity and was exceeded only by the customs duties which were and are the chief source of Dominion revenue.⁵⁴

Sales tax receipts reached their highest point in the financial year 1923-1924, by supplying one quarter of Canada's revenue or 45.9% of the dominion internal revenue, an amount well over \$100 million. The reduction of the rate of the production tax from 6% to 5%, the increased scope of the exemption from the tax, and a decrease in business turnover, combined to reduce the revenue from the tax by one-third in the following year. Between 1925 and 1927 there was a slight increase in the yield of the Canadian turnover tax. This increase is partly to be accounted for by the fact that in this period there was an increase in industrial production and presumably therefore in sales and partly by improved administration.⁵⁵

A reduction of the tax rate to 4% became effective in February 1927. In the succeeding twelve months, sales tax receipts showed a decrease though not in proportion to the decrease in rate, and in 1928 the rate became 3%. As in other countries, collections

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Ibid.

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Ibid.

vary with business conditions, increasing in prosperity and decreasing in depression unless offset by changes in the rate and scope of the tax.⁵⁶

It may be argued that the sales tax has not been sufficiently tested to prove its productivity, but the fact that the tax has been employed by about thirty nations to repair and add strength to their national finances, that these nations have continued to collect the tax, with a few exceptions, and that these nations have found the tax capable of producing considerable revenues, must be admitted. The sales tax has added diversity to the tax systems of nations which have been forced to collect revenues from every possible source.⁵⁷

⁵⁶ Ibid and Buehler, op. cit., p. 121.

⁵⁷ Buehler, op. cit., pp. 170-171.

CHAPTER VII

THE INCIDENCE OF SALES TAXES

In determining the incidence of a sales tax, it is necessary to discover the final resting place of the tax, and to trace the shifting of the tax it is necessary to follow the processes by which the sales tax is passed from the immediate taxpayer, from whom the government collects the tax, to the ultimate taxpayer who finally pays the tax in the increased price of his purchases. When sellers try to increase their prices, in order to recover the tax paid, the circumstances of production and consumption change, and sellers and buyers experience many important consequences. Many of the burdens of the sales tax are not considered until its effects on production and consumption and on sellers and buyers are known.¹

The Problems of Incidence and Shifting

The problems of incidence and shifting are far more complex and variable than the advocates of the sales tax often appreciate. The sales tax is not always shifted, and when the tax is shifted it is not with the ease and precision that many of its advocates have pictured. It is evident that producers, distributors, and consumers all feel the effects of a general sales tax, that the collection of the tax is accompanied by many indirect consequences for everyone concerned, and that some of these effects are highly undesirable.²

Sales taxes have been added to tax systems which already included direct and indirect taxes, and the same persons and objects

¹ Alfred G. Buehler, General Sales Taxation, p. 173.

² Ibid., pp. 174-175.

have been subjected to multiple taxation. Therefore, it is almost impossible to separate the effects of the sales tax from other taxes. Furthermore, the scope and rates of sales taxes have been modified and changed frequently, and the tax may be imposed upon all business transactions, upon producers' sales, upon all sales at wholesale, or only upon sales at retail.³

The conditions of cost and the conditions of demand for each commodity vary widely. One is faced with conditions of constant, increasing, or decreasing production costs and with varying degrees of elasticity of demand. Both competitive and monopolistic enterprise must be investigated, for both may be subject to the sales tax. It is necessary to look beyond the boundaries of the country or district levying a sales tax and determine the results of taxing or exempting from taxation the import and export transactions of the country or district. To uncover the remote effects of the sales tax, the expenditures of tax collections by the governments involved should be carefully examined.⁴

General Principles of Tax Shifting

Although it is quite impossible to trace the immediate and remote consequences following the imposition of a sales tax, such as the general sales tax, some general principles may be stated which may be of value in a study of the shifting and incidence of a sales tax. The general sales tax may be termed a consumption tax, in effect, or, a system of consumption taxes. The rates of the taxes may vary according to the thing taxed; that is, sales of goods and services may be

³ Ibid., p. 176.

⁴ Ibid., pp. 176-177.

separated for special taxation; and the system of taxes may involve several modes of tax imposition and numerous other peculiarities. In addition, since each commodity or service the sales of which are taxed is an individual study in particular supply and demand conditions, there are numerous taxes to examine closely, and tax shifting in any particular case can be determined only in part by the application of general principles.⁵

Taxes are Shifted in Higher Prices

The possibility of shifting a tax depends on the possibility of adding it to prices received through sales; hence, tax shifting necessitates price manipulation. A tax will not ordinarily add to the utility of an object or service, therefore, the tax will not cause the demand for commodities and services to increase. However, in a rare case the higher price induced by the tax may make an article more attractive and the demand may be increased. On the whole, it usually followed that an increase in price after the imposition of a tax must be due to a decrease in supply. If the supply of goods and services is not changed as a result of the sales tax, the tax is not shifted; and if the prices of goods and services are not increased after their sales are taxed, the tax is not shifted.⁶

Conditions of Competition or Monopoly

Before the theory of the incidence and shifting of the sales tax can be developed, it is necessary to know whether conditions of competition or monopoly prevail in a particular case. It is, indeed,

⁵ Ibid.

⁶ Ibid., p. 178.

unfortunate that the conditions of conducting business are subject to various degrees of competition and monopoly. Under the conditions of free competition market prices and discounted production costs necessarily coincide, in the long run; and a tax levied on the volume of sales is an extra business cost that must be shifted. When the sales tax is not shifted under competitive conditions, the marginal sellers are forced out of business, the supply is restricted in the long run, and the ultimate result is the tax will be added to prices because business cannot continue to sell indefinitely below cost.⁷

When a monopoly controls the supply of taxed articles or services, market prices probably exceed the discounted production costs because the monopolists attempts to obtain maximum net profits and tends to charge all "the traffic will bear". However, when a tax is laid upon the sales of a monopoly, the tax may be absorbed if the monopoly fears that adding the tax to prices will cause demand to fall off. Of course, the monopolist will add the tax to his price if he can, but he will do so only if his profits are greater after he adds the tax than if he absorbs it. In reality, the tax on the sales of a monopoly is an added business cost, just as it is an added cost in competitive business, in the long run such a tax will tend to be shifted. On the other hand, the possibility of substitutes for the taxed article being bought by consumers, the fear of additional competition if the monopolist raises his price, and the fear of government interference if monopoly prices are raised, will all influence the choice of monopoly in its price policy.⁸

⁷ Ibid.

⁸ Alfred Marshall, Principles of Economics, Book V, Chap. XIII & XIV; C. F. Bastable, Principles of Economics, Book III, Chap. V; E. R. A. Seligman, The Shifting and Incidence of Taxation, Part II, Chapt. I; Buehler, op. cit., pp. 178-179 and Harley L. Lutz, Public Finance, p. 339.

Cost Conditions

The various conditions of production cost exercise an important influence on tax shifting through price changes. With reference to production costs, business enterprise may be classified in one of three groups of industries; that is, as a constant cost industry, an increasing cost industry, or a decreasing cost industry.⁹ The tax upon the sales of a constant cost industry, or an industry where the unit production costs are the same, within limites, regardless of the quantity of units produced, tends to be shifted in full. Such a levy is an added business cost and must be added to the price. The demand may decline and the amount of output may fall, but as long as production continues at constant costs, the entire tax must be added to the price of the product, in the long run, because business cannot operate indefinitely at a loss.¹⁰

When an industry is one of increasing costs, such as the extractive industries, the greater the volume of production, the greater the unit production costs, and the smaller the volume of production, the lower the unit production costs. If a tax is laid on the sales of an increasing cost industry, demand will normally decline as the tax is added to prices, and as demand declines, production will eventually decline. The smaller volume of output is conditioned by the lower unit production costs, and, excepting for the tax, the effect of the tax on sales will be an increase in the price of the product. Yet, the price will be advanced by an amount less than the tax, because production costs, excepting for the tax, have been lowered, and the

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¹⁰ Marshall, op. cit., Book V, Chap. XIII.

Buehler, op. cit., p. 179.

decrease in unit production costs partly cancels the increase in price¹¹
due to the tax.

When an industry is one of decreasing costs, as railway transportation is recognized to be, an increase in the volume of production is conditioned by a decrease in unit production costs; and a decrease in the volume of production is conditioned by an increase in the unit production costs. The tax, if laid on the sales of a decreasing cost industry, is an added business cost, and it will be added to the price of the product. If the price of the product increases, the demand for the product will normally decrease, and, in the long run, the decrease in demand will be followed by a decrease in the volume of production. When the volume of production decreases, the unit production costs, except for the tax, increase. When a tax is imposed upon the sales of a decreasing cost industry, the effect of the tax, in the long run, will be an increase in the price of the product by an amount greater¹² than the tax.

The Mobility of Investments

The mobility of investments in the industries affected by a sales tax has a very important bearing on the conditions of supply and the possibilities of tax shifting. When the sales tax is followed by reinvestments in industry, conditions of supply are changing, and the tax is being shifted, in the long run, by decreases in production and supply of taxed articles and services. When investments in the

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¹² Ibid., p. 180.

Marshall, op. cit., pp. 467-470; Seligman, op. cit., pp. 240-248;
Buehler, op. cit., p. 180.

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industries the sales of which are taxed are sunk, they cannot be withdrawn and will have practically no influence on price; and those who cannot withdraw their funds and invest them in more favorable fields will tend to sell at prices below cost. On the contrary, if investments in heavily taxed industries can be withdrawn and can be invested more favorably to produce larger returns in industries less heavily taxed, the production of certain taxed articles will decline, the supply will decrease, and the prices of these articles will advance.¹³

The facility of adjusting production to new conditions created by a tax will determine the ease of tax shifting through re-adjustments in supply. Over a long period of time investments are usually mobile, and, therefore, a sales tax on the volume of sales can be shifted. However, the mobility of investments will be influenced by the opportunities for greater returns in other industries where the sales tax applies more lightly, or, perhaps, not at all. It is certain, that a general sales tax bears unequally on business enterprise, and that particular classes of enterprises are favored at the expense of others. The sales tax stimulates the reinvestment of funds in fields where the tax is less oppressive by the gradual withdrawal or the non-investment of funds in the more heavily taxed fields, and, finally, it affects conditions of production and in the end is shifted to consumers.¹⁴

However, absolute mobility of investments does not prevail in the business world, and there are numerous obstacles which

¹³ Buehler, loc. cit.

¹⁴ Ibid., p. 181.

prevent the reinvestment of funds and the complete shifting of the sales tax. It is evident that the person from whom the government collects a sales tax is at a disadvantage, because the shifting of the tax is always resisted. Furthermore, enterprises and investors are often quite ignorant concerning the more favorable fields, and this tends to prevent mobility of capital. Investments also tend to stay in their usual places on account of the risk of changing investments, ignorance, the difficulties of withdrawing funds, fixed investment habits, etc. There is also the uncertainty of future taxation which tends to check the reinvestment of funds in countries where the sales tax policies are not settled.¹⁵ Any general conclusion that the general sales tax is shifted in the long run must be further qualified by mentioning that in the short run, in any given case, it may be quite impossible to shift any or all of the tax in higher prices because of the numerous unfavorable circumstances which might prevent a readjustment in supply.¹⁶

Conditions of Demand

The possibility of shifting a tax on the sales of commodities and services depends largely on the elasticity of demand for those goods and services. If the demand is inelastic in a particular case, not declining much as the price of the taxed goods or service advances to include the tax, the tax may be shifted to consumers either wholly or in part, depending on the degree of inelasticity of demand. On the other

¹⁵ Ibid.

¹⁶ Ibid., p. 164 and Lutz, op. cit., pp. 325-327.

hand, if the demand for a taxed good or service is highly elastic, an advance in price is followed by a sharp drop in demand, the volume of production will decline, and sellers discover that the penalty of tax shifting is a much smaller volume of sales. It may be concluded that the possibility of advancing prices to cover taxes depends on the elasticity of demand for taxed goods and services, and that the more elastic demand is, the greater will be the decline in sales as prices advance.¹⁷

The demand for several commodities may be closely related. Two or more articles may be demanded jointly or as a substitute for each other, and the tax on the sales of one article affects the sales of the other article, directly or indirectly. The immediate effect of the increased demand for substitutes would be an increase in their price, but in the long run the prices of the substitutes would concur with the unit production costs when a larger volume is produced.¹⁸

The imposition of a sales tax on an article or service may lead to a reduction in the expenditure for that commodity or service without causing the expenditure for other commodities or services to increase. The effect of such a tax is to promote saving and less spending. For example, it has sometimes been observed that an excise tax on the sale of alcoholic beverages has encouraged thrift at the expense of lowered alcohol consumption. The price of alcohol is affected, in such cases, by both the tax and the lessened volume of production.¹⁹

¹⁷ Buehler, op. cit., pp. 184-185.

¹⁸ Ibid., pp. 185-186 and National Industrial Conference Board, General Sales or Turnover Taxation, Chapter VI.

¹⁹ Buehler, op. cit., p. 186 and Comstock, Taxation in the Modern State, pp. 184-185.

There are other conditions which affect the elasticity of demand for goods and services. The various consumption habits of people tend to become fixed; the demand for customary objects is more inelastic than the demand for other objects. Persons with large incomes usually have a less elastic demand for goods and services than the demand of persons of small incomes. This is especially true for comforts and luxuries. The higher the living standard of a person is, the less elastic will be his demand for most articles.²⁰

The possibility of shifting a tax on the sales of commodities depends largely on the elasticity of demand for the articles taxed and the elasticity of demand for articles which are indirectly affected by the tax. The ease of tax shifting tends to vary with the degree of elasticity of demand. The tax can be shifted more easily when the demand is inelastic; and the less inelastic the demand for goods and service is, the more difficult it is to shift the tax.²¹

Effects of General Business Conditions

The possibilities of tax shifting depend, to a certain extent, upon general business conditions. In a period of business prosperity, when prices are rising, a sales tax may be added to prices with little difficulty. But during a period of business depression, when prices are falling and markets are filled with goods that cannot be sold, it is extremely difficult to collect any part of a sales tax from consumers.²² Then to, it is sometimes argued that during a period

²⁰ Buehler, op. cit., p. 186.

²¹ Ibid., Seligman, op. cit., pp. 228-233 and Lutz, op. cit., p. 328.

²² Buehler, op. cit., p. 187.

of rising prices, producers and distributors take advantage of a sales tax to pass on something more than the tax, whereas during a period of falling prices, they are forced to absorb the tax themselves, thus adding to their losses.²³ The opinion is held by many French commentators, especially those not directly connected with business firms, that the seller raises his prices by more than the tax, the theory being that the business man sets his prices on the basis that his profits must equal a certain percentage of his expenses; and as the tax is counted among his expenses, the base on which the profit percentage is figured is expanded. Furthermore, they conclude that the imposition of the tax increases the business man's profits. Or, that the business man, making the tax an excuse for increasing prices, may increase them by more than the tax, just for good measure.²⁴ This is an extreme view, but it is certain that a sales tax is attended by expenses occasioned by tax collection and by the restrictions and formalities which may be imposed upon the business man and in the long run these increased costs must be recouped.

Ultimate Effects of a Sales Tax Uncertain

In the final analysis the net effects of a sales tax on prices are almost impossible to determine. On the whole, it seems that the tax operates to increase prices of taxed commodities and services and is generally shifted to consumers. When the long run effects of government expenditures of tax collections are considered,

²³ National Industrial Conference Board, op. cit., p. 15.

²⁴ Carl S. Shoup, The Sales Tax in France, pp. 322-323.

it is quite possible that the effects of government spending may counteract the price changes due to collecting the tax from individuals. But it must be remembered that the effective purchasing power of consumers, except the government, is decreased by the tax; and that business in general necessarily feels the effect of the declining consumer demand, even if the government demand for goods and services might compensate sellers for some of the loss of private demand. Another possibility is that the tax might induce consumers to spend more of their income and to save less, and this would in the long run divert funds from existing investments to consumptive uses.²⁵

Without complete and elaborate statistical evidence to show the ultimate effects of sales taxes on prices, only theories can be developed concerning these effects. Certainly, the influences of taxation on prices are minor compared to the more serious influences of currency disturbances and other factors. It is difficult to separate many of these other effects on prices from the effects of taxation, and, of course, the public tends to confuse them. The public can be depended upon to blame taxes for price advances, and the sales taxes have received more than their share of the blame for rising prices in European countries, regardless of the more fundamental factors than taxes which led to the price revolutions in every country during and after the war.²⁶

In tracing the shifting of a general sales tax, which is imposed upon the sales of multitudinous commodities and services, it

²⁵ Buehler, op. cit., p. 189.

²⁶ Ibid.

is evident that the tax shifting is determined by numerous forces which constantly change and reappear in new combinations. The application of general principles of tax shifting in any particular case will indicate only the theoretical outcome of laying a tax on the sale of the given commodity or service. The numerous interacting forces tend to counteract each other, and in the end the general level of prices may not be greatly altered.²⁷

Taxing Public Service Enterprise

Some countries exempt public service enterprises, and others tax the gross receipts of railways, telegraph and telephone companies, light, heat, power and water companies, and other public utilities. The general practice is to treat the various public utilities as a group, and to impose a uniform tax on their gross receipts, or exempt the whole group. But in this way the essential differences among the various public utilities are ignored.

Public utilities are subject to the common condition that their rates are usually regulated by government authority instead of being determined by the forces of competition. A sales tax on the gross receipts of public utilities constitutes an additional cost. When rates are at the lowest point which permits a reasonable return on the investment and at the same time assure efficient service, the imposition of a sales tax is a serious burden and service must deteriorate if rates are not raised. On the other hand, if rates are raised, and if demand for the service is elastic, an increase in rates will be followed by a decrease in demand, and this will probably lead to

²⁷ Ibid.

increased production costs, to which the tax must be added. There is a possibility, however, that the public service company under consideration may enjoy a wide margin of profit and may be able to absorb a part or all of the tax without decreasing the quality of the service offered.²⁸

Increased service rates, due to taxation, will usually arouse the anger of the public, and political forces will be directed to repealing the tax. It is this fear of political opposition which has undoubtedly influenced France and other countries to exempt public utilities from the sales tax. In addition, public utilities may already be burdened with heavy taxation, and the addition of a tax on gross receipts may lead to excessive taxation. About all that can be said for the incidence of a tax on the gross receipts of public service companies, is that it tends to be shifted in higher rates, but each case is a separate case and should be treated accordingly.²⁹

Taxing the Receipts of the Professions

The receipts of the professions are subject to the sales tax, under certain conditions, in Germany and some other countries. This gives rise to another problem in tax shifting. Professional fees are usually not determined in the open market by the forces of competition, but are established largely by custom and become standard rates for personal service. Professional fees frequently bear little relation to the cost of the service, and a tax on the receipts of the professions is not easily shifted, if it is shifted at all.³⁰

²⁸ Ibid., p. 190.

²⁹ Ibid., p. 191; Bastable, op. cit., pp. 575-579; and Seligman, op. cit., pp. 355-358.

³⁰ Bushler, op. cit., p. 193.

Shifting Various Sales Taxes

A sales tax may be imposed on producers' sales only, on sales of producers and wholesalers, on sales of retailers, or on all sales. In the long run, under competitive conditions, the levy of any sales tax will react on producers, dealers, and consumers, regardless of the mode of imposing the tax. Alfred Marshall recognized this problem and stated, "It is a general principle that if a tax impinges on anything used by one set of persons in the production of goods or services to be disposed of to other persons, the tax tends to check production. This tends to shift a large part of the burden of the tax forwards on to consumers, and a small part backwards on to those who supply the requirements of this set of producers. Similarly, a tax on the consumption of anything is shifted in a greater or less degree backwards on to its producer."³¹

The nearer to production a tax is laid, the higher will be the interest charges on sellers for the carriage of the tax until it is paid by consumers, and as the tax is shifted from the producer to the various middlemen it reacts on every person it touches until it reaches the ultimate consumer. Even if the tax is laid on the last sale to the consumer it will be thrown back on the producer in that his volume of production is affected by declining demand as the tax is added in higher prices.³²

³¹ Marshall, op. cit., pp. 413-414.

³² Buehler, op. cit., pp. 193-194 and Lutz, op. cit., pp. 328-329.

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CHAPTER VIII

AN EVALUATION OF THE SALES TAX

A Consumption Tax

Generally, though not always, a sales tax is shifted to consumers. It is essentially a consumption tax - a tax upon expenditure. It tends to increase the prices of goods or services purchased for consumption more or less by the amount of the tax.¹ The arguments for and against a tax upon consumption or expenditure as opposed to other taxes differ little from the arguments which have been advanced during the last two centuries.²

The revenue-producing qualities of a sales tax can not be denied. Large sums have been obtained by this means, and they have been obtained "painlessly". That is, as a rule, the taxpayers do not realize that they are paying the tax. This is one feature which must not be overlooked when large revenues are sought. Of course, there are some people who believe that everyone should know how much he is contributing to the government. However, the most important quality of any tax is its ability to produce revenue, and when the revenue can be obtained "painlessly" the tax may be considered a valuable asset to any government.

"A general sales tax has the broadest possible base - the expenditures of a people". Everyone who spends has to pay, but each person pays only a small amount.³

The purchases of individuals tend to vary according to their incomes. Consequently, taxes upon expenditures tend to burden

¹ National Industrial Conference Board, General Sales or Turnover Taxation, p. 54.

² T. M. Gordon, The Canadian Sales Tax, pp. 48-49.

³ Ibid.

the poorer classes more heavily than the richer classes, because the consumption expenditures of the former absorb a relatively larger proportion of their incomes.⁴

It is, because of this circumstance that the social and political opposition to any general sales or turnover tax is strong. This opposition, however, can be modified, by combining the sales tax with some other tax which imposes a heavy burden on the rich classes and a light burden or no burden at all on the poor class. The two taxes would supplement each other and promote a balanced system. Furthermore, the opposition to the sales tax might be less if it were proposed to substitute it for another tax which, for social, economic or administrative reasons was less satisfactory than the sales tax.⁵

It is impossible to have a tax without faults, but if governments are to make expenditures, there must be adopted some form of taxation. Many of the arguments against the sales taxes are not against the sales tax, alone, but against any form of taxation.

Any system involving a general tax on consumption is bound to be regressive. No account is taken of the ability of the individual to pay, with the exception of luxury taxes and these can not be depended upon to be productive. In proportion to their wealth rich men pay much less in consumption taxes than do the poor men, because expenditure taxes, unless restricted to certain luxury articles, fall out of all proportion upon the consuming masses.⁶

⁴ National Industrial Conference Board, op. cit., p. 54.

⁵ Ibid., p. 55.

⁶ Gordon, op. cit., p. 50.

It is quite impossible to separate the conventional necessities from the luxuries. What may be a luxury to one individual is a necessity to another, and the taxation of what may be necessities of the poor who have no ability to pay, tends to lessen their labour ability.⁷

An additional weakness of a sales tax is that it makes no allowances for domestic circumstances, and it imposes a heavier burden, as between taxpayers of equal income, upon those with a greater number of dependents, simply because their expenditure must be greater. The sales tax must be paid in bad times as in good, whereas an income tax is paid only when money has been received. On the contrary, it can be pointed out that an income tax must be paid at certain unalterable times, whereas a sales tax is paid when the taxpayer has the money to spend.⁸

If the sales tax is not shifted, it is no longer a consumption tax and instead, becomes a tax on business, having a repressive effect and falling with unequal incidence upon different enterprises.⁹

Discriminatory Provisions of the Sales Tax

The various discriminations in the sales tax laws of the countries collecting the tax tend to increase the unequal effects on business when the tax cannot be shifted to consumers. It may be justified on administrative grounds to exempt farmers' sales, the

⁷ Ibid., p. 51

⁸ Ibid.

⁹ Ibid.

professions, public utilities, retailers, small concerns, etc., but it must be remembered that every exemption adds to the burdens of the taxed enterprises. The special taxation of luxuries, production of certain commodities, the sales of services, import and export transactions, etc., results in favoring certain concerns at the expense of others. The shifting of a sales tax constitutes a difficult process and it is a great competitive advantage to be partially or entirely exempt from the application of such a tax.¹⁰

The Sales Tax and Integration

A sales tax which is collected from the various transfers of commodities during the stages of production and distribution, offers a competitive advantage to the concern which combines a number of taxable transactions. The competitors who independently perform one of the stages of production and distribution must necessarily pay a tax every time the article changes hands from the raw material stage to the finished commodity marketing stage, and the price of the product includes several taxes. The integrated concern has a smaller tax to add to its prices and enjoys a distinct competitive advantage over the smaller concerns, whether the tax be shifted or not.¹¹

Sufficient statistical evidence is not available to prove or disprove the theory that a sales tax encourages vertical combinations in a manner that seriously discriminates against non-integrated concerns. Professor Alzada Comstock has studied the relationship between the sales tax and the combination movement in several countries and he has

¹⁰ Alfred G. Buehler, General Sales Taxation, p. 203.

¹¹ Ibid., pp. 203-204; H. L. Lutz, Public Finance, pp. 340-341.

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found no evidence to substantiate this charge against the sales tax.¹²

Some Additional Advantages of Sales Taxes

The taxation of business is both desirable and necessary in the taxation of diversified sources of revenue. Business enjoys a capacity for taxation, and it is advantageous to governments to depend on business for a share of its revenues.¹³

Some thirty nations depend upon the sales tax for considerable revenues. The experience of these nations reveals that while the virtues of the tax have been exaggerated to a great extent, this method of taxation plays an important role in the fiscal system of each of the nations.¹⁴

The sales tax is spread over many buyers and sellers, and large revenues are obtained at a low rate of taxation, and a fairly large and reasonably stable tax collection is assured. Furthermore, much can be said for the fairness of taxing individuals according to their expenditures.

A sales tax adds diversity to the tax system. Since it is a tax on sales in general, or on a given class of sales, the burdens of the tax are diffused through the community. The tax may be employed to reach business enterprise or consumption otherwise not taxed adequately. The sales tax was turned to by many nations during and after the World War. This method of taxation has, in the main, responded well; it has increased the revenue flow from many diverse sources.¹⁵

¹² Alzada Comstock, *Taxation in the Modern State*, pp. 116-117.

¹³ Buehler, *op. cit.*, p. 196; Lutz, *op. cit.*, p. 164.

¹⁴ Buehler, *op. cit.*, p. 197.

¹⁵ *Ibid.*, p. 198.

The numerous advantages of the sales tax are attacked by critics as imaginary, but the very fact that the tax is employed by many nations is actual proof that the sales tax does offer numerous fiscal advantages. In spite of its disregard for equitable taxation, the sales tax, adopted as an emergency tax measure, has made its place in the tax systems of many nations.¹⁶

¹⁶ Ibid., p. 199.

APPENDIX

Table II. Relative Yield of Sales Taxes

Country	Sales tax Receipts	Total tax Receipts	Proportion of Sales tax Receipts to Total Tax Receipts
	Amount (in millions)		Per cent
Austria (1927) ¹	Sch. 237.1	Sch. 1,009.6	22.5
Belgium (1928) ²	fr. 2,160.0	fr. 9,033.8	23.9
Brazil (1926) ³	milreis 68	milreis 1,350.	5.
Canada (1930-31) ⁴	dollars 34.7	dollars 296.2	11.7
Cuba (1925-26) ⁵	dollars 13.8	dollars 85.0	16.2
Czechoslovakia (1930) ⁶	crowns 1,147.	crowns 9,420.	12.1
France (1929) ⁷	fr. 9,874	fr. 49,629.	20.
Germany (1930-31) ⁸	R. M. 996	R. M. 9,025	11.
Hungary (1930) ⁹	pengos 111	pengos 897	12.3
Italy (1927-28) ¹⁰	lire 642.7	lire 13,301.3	4.8
Mexico (1924) ¹¹	pesos 20.0	pesos 290	6.9
Poland (1929-30) ¹²	Zlotys 347	Zlotys 2,253	15.4
Philippines (1930) ¹³	pesos 16	(total Internal taxes) pesos 55	29.
Rumania (1926) ¹⁴	lei 1,200	lei 21,685	5.
Russia (1928-29) ¹⁵	roubles 1,005	roubles 3,892	26.3
Yugoslavia (1928) ¹⁶	dinars 220	dinars 7,678	2.9

Footnotes to Table II will be found on page 121

APPENDIX

Notes to Table II

1. National Industrial Conference Board, General Sales or Turnover Taxation, p. 180.
2. Ibid., p. 177; The total national tax revenue for 1928 has been estimated by the Belgian Ministry of Finance.
3. Alfred G. Buehler, General Sales Taxation, p. 301; Budget estimates
4. United States Commerce Year Book, 1931, Vol. II Foreign p. 328; and Canada Year Book 1930, p. 794.
5. Buehler, op. cit., p. 299.
6. Ibid., p. 287; Budget estimates
7. United States Commerce Year Book, op. cit., p. 89.
8. Ibid., p. 121.
9. Buehler, op. cit., p. 283; Budget estimates
10. National Industrial Conference Board, op. cit., p. 179.
11. Buehler, op. cit., p. 297; Budget estimates
12. United States Commerce Year Book, op. cit., p. 212.
13. Buehler, op. cit., p. 145.
14. Ibid., p. 289; Budget estimates
15. Ibid., p. 291; Budget estimates
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