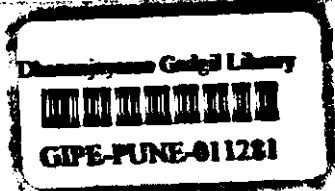


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**GENERAL SALES OR TURNOVER
TAXATION**

STUDIES IN TAXATION AND PUBLIC FINANCE

PUBLISHED BY THE
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GENERAL SALES OR TURNOVER TAXATION



NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.
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PREFACE

THIS volume is one of a number of studies by the National Industrial Conference Board dealing with particular forms of taxation employed in the United States. Of this series, there has already appeared Volume I of a study, "The Shifting and Effects of the Federal Corporation Income Tax," dealing with the federal income tax on manufacturing and mercantile corporations. Volume II of this study, dealing with public utilities, building construction, banking and the extractive industries, is now in preparation. In addition, similar studies of other forms of taxation are now engaging the attention of the Conference Board.

The choice of general sales or turnover taxation as a subject in this series was motivated by two considerations. At the present time the legislatures of a number of states have under consideration the general sales or turnover tax, seeing in it a potential source of rich revenue that will relieve them of many of their fiscal worries. Because the tax is relatively unknown and untried in this country, there is a tendency in some quarters to view it as a sort of fiscal panacea. It is not unlikely that general sales or turnover tax laws will be enacted in several states within a few years' time. Under the circumstances a study of this form of taxation now has a strong element of timeliness.

The second consideration that influenced the Conference Board to make this study was the great dearth of information in this country upon the possibilities and limitations of the general sales or turnover tax. Treatises on this tax have appeared in several foreign languages, but none of these studies has been translated into English. A scanty polemical literature on the advantages and disadvantages of a federal turnover tax was published from 1918 to 1921, but these *ex parte* dissertations can be of little guidance to legislators or fiscal students seeking information on state turnover taxation. The National Industrial Conference Board

has in this report endeavored to make a genuine contribution to tax knowledge by a disinterested, non-partisan inquiry into the potentialities of the general sales or turnover tax.

In the preparation of this study the National Industrial Conference Board has greatly benefited by the cooperation and suggestions of its Advisory Committee on Taxation and Public Finance, composed of men of special knowledge and broad experience in this field, to whom the Conference Board wishes to express its indebtedness, *viz.*:

Addison L. Green, Chairman, Farr Alpaca Company, Holyoke, Mass., *Committee Chairman.*

Thomas S. Adams, Professor of Political Economy, Yale University, New Haven, Conn.

Paul Armitage, of Douglas, Armitage and McCann, New York City.

Arthur A. Ballantine, of Root, Clark, Howland and Ballantine, New York City.

Charles Cheney, President, Cheney Brothers, South Manchester, Conn.

Wilson Compton, Manager, National Lumber Manufacturers' Association, Washington, D. C.

James A. Emery, General Counsel, National Association of Manufacturers, Washington, D. C.

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A. E. Holcomb, Tax Attorney, American Telephone and Telegraph Company, New York City.

James R. Knapp, Attorney, Union Carbide and Carbon Corporation, New York City.

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H. C. McKenzie, Tax Adviser, New York State Farm Bureau Federation, Walton, N. Y.

Fayette R. Plumb, President, Fayette R. Plumb, Inc., Philadelphia, Pa.

Herbert H. Rice, Assistant to the President, General Motors Corporation, Detroit, Mich.

Walter A. Staub, of Lybrand, Ross Bros. and Montgomery, New York City.

PREFACE

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J. Frank Zoller, Tax Attorney, General Electric Company,
Schenectady, N. Y.

William J. Shultz, Financial Economist of the National Industrial Conference Board, *Committee Secretary*.

Members of the Advisory Committee have generously contributed to the study of the subject under consideration, and have reviewed the manuscript, but their cooperation does not necessarily imply responsibility for all statements and conclusions expressed therein.

In the preparation of its studies, the National Industrial Conference Board avails itself of the experience and judgment of the business executives who compose its membership, and of recognized authorities in special fields, in addition to the scientific knowledge and equipment of its Research Staff. The publications thus finally represent the result of scientific investigation and broad business experience, and the conclusions expressed therein are those of the Conference Board as a body.

This study is a result of an investigation conducted by Mr. William J. Shultz, and assistants, of the Conference Board's Research Staff, under the supervision of the Staff Economic Council.

MAGNUS W. ALEXANDER
President

New York City
July, 1929

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APPENDIX I

FOREIGN GENERAL SALES OR TURNOVER TAXES

The pressure of financing during the World War and the post-war years compelled the European countries, particularly the belligerent powers, to strain their revenue resources to the uttermost. The general sales or turnover tax was hailed by the hard pressed treasuries of these countries as an avenue of salvation. Germany and France levied turnover taxes during the war years. All the major European countries except England, and a large proportion of the smaller states, have resorted to general sales or turnover taxes in the succeeding years; some of these turnover taxes were repealed after short trial, but most have continued in force down to the present time. General or partial turnover taxes have been continued or recently enacted in several of the Latin American countries and in Canada. With few exceptions the foreign general sales or turnover taxes in force today are less than a decade old.

Although the present practice of general sales or turnover taxation is relatively novel, the principle has a long history behind it. This early experience was heavily drawn upon in the arguments for and against the modern taxes, and it was not without influence upon their forms and characteristics.

TURNOVER TAXES PRIOR TO THE WORLD WAR

Among their many and interesting fiscal experiments, the ancient Greek and Roman civilizations tried rudimentary forms of turnover taxation. Feudal exactions comparable in form and effect with general sales or turnover taxes were prevalent throughout the Middle Ages. Turnover taxes became a major element in the early Spanish and French national states. Sporadic examples appeared in the Nineteenth Century.

Ancient General Sales or Turnover Taxes

Market transfer taxes, with rates differentiated according to the commodities sold, existed in many of the Greek city-states; since practically all retail sales were transacted at these city markets, these taxes had the effect of retail sales taxes. To provide funds for the protection of commerce, an important function of the Greek city-states, heavy transfer taxes were levied on the sales of wholesale merchants. It is not probable that these two sets of taxes were considered as forming a system of general sales taxation.¹ Their effect, however, was in this direction. With the political and commercial collapse of the Greek city-states, these turnover taxes disappeared; at least, there is no record of their later collection.

¹ Grabower, "Geschichte der Umsatzsteuer," pp. 17-33.

The Emperor Augustus instituted a 1% Roman turnover tax in 9 A.D., under the name *centesima rerum venalium*, to cover his heavy military expenditures.¹ The tax probably applied only to goods sold at auction, but this was the customary Roman method of marketing all commodities except articles of domestic consumption, so that the tax was broad in its application. In the year 17 A.D. the Emperor Tiberius reduced the rate one-half. The 1% rate was later restored and still later doubled.

Records of the continuation of the tax are fragmentary. It was still levied during the reign of Nero. The same or a similar tax was collected under the Emperor Constantine and passed into the tax system of the Byzantine Empire, where it was employed by the Emperor Justinian. By this period, however, many exemptions had been allowed, there was pressure for more, and the effectiveness of the tax was weakening.

The Medieval Turnover Taxes

From the Eighth to the Twelfth Centuries, the commerce of Europe was transacted almost exclusively at fairs held under the protection of feudal lords. The sales made at these fairs were taxed. There is evidence that certain types of sales and certain individuals were exempted. These taxes were sometimes paid in coin, but more often in kind.

After the Twelfth Century, turnover taxes developed in the Italian, French, German, Flemish and Spanish commercial cities. The revenue from these taxes was divided between the city treasuries and the feudal overlords of the cities. These turnover taxes were in the form of specific levies on the sales of individual commodities.

The Early French National Turnover Tax

As the French kings acquired power on a national scope during the later Middle Ages, they sought to build up a national revenue. The local turnover taxes existing in the commercial towns suggested the possibility of a turnover tax of national application. In 1292, King Philip the Fair levied a tax of $\frac{5}{8}\%$ on all sales and purchases except small sales and those of foodstuffs.² In 1314 the rate was raised to 2.5%. There was strong opposition to this tax and some of the French commercial towns, by lump sum payments, bought themselves free of it.

After Philip's death the rate of the turnover tax was lowered. Increasing exemptions were allowed. By the middle of the Fourteenth Century the tax had lost its national character and was levied independently and at varying rates in the different provinces. In Paris, in 1386, it reached a height of 7.5%. By the Fifteenth Century many of these provincial turnover taxes had disappeared.

Once again, from 1640 to 1643, a national turnover tax was levied in France. The rate was 5%. Popular opposition was great, and the tax was discarded after three years' trial.

¹ *Ibid.*, pp. 70-106; Seligman, "Studies in Public Finance," pp. 124-125.

² See, Camille Rosier, "Traité théorique et pratique de législation fiscale," Paris, 1926, Vol. I, p. 45; Allix and Lecercle, "La taxe sur le chiffre d'affaires," pp. 1-2.

The Spanish Alcavala

The Spanish kings similarly adapted the municipal turnover taxes of the Spanish cities to their national ends. In 1342 the council (*cortez*) of Burgos granted the revenue from a 5% turnover tax (*alcavala*) to the king of Castile for his military operations. Other cities followed suit. Thereafter, these city turnover taxes were a basic element of the Castilian royal revenues, and with the establishment of the Spanish kingdom they took on the character of a national tax.¹ As the royal treasury declined in the Sixteenth Century, the rate of the tax was increased, until from 1576 to 1584 it was 20%. Thereafter it was held to about 10%. During the Seventeenth Century an innovation was introduced by the levy of an additional tax on retail sales.

In principle, all goods, irrespective of what social class produced them, were to be taxed. In practice, the sales of goods produced on the estates of the King and of the Church were exempted. So, also, were the sales of foodstuffs and of certain hunting accessories.

After a long investigation by a royal commission, the Spanish turnover tax was reformed in 1785. The administration, previously very lax, was strengthened. It was now provided, moreover, that the tax should apply only at the initial transfer of goods. The rate for most articles was fixed at 2%; cattle sales were taxed 4%; the tax on imported luxuries was fixed at 10%.

The weakness of the Spanish power during the succeeding decades resulted in the collapse of this well-intentioned system. In some parts of the kingdom the turnover tax disappeared entirely or was replaced by lump sum payments. Elsewhere, the rates were increased. The Spanish turnover tax was finally abolished in 1819.

The Alcavala in Spanish America

Throughout the Sixteenth Century the Spanish crown urged the introduction of the *alcavala* into the Spanish colonies, but the opposition of the colonists delayed this step until the end of the century.² The tax was established in New Spain in 1574, in Guatemala in 1576, in Peru in 1591, and later in Quito. The rate was 2% (after 1637, 4% in the northern provinces). It was often compounded by the towns.

Planters and ranchers reported their sales to the collectors three times a year. Itinerant merchants and those making incidental sales had to report their sales within twenty-four hours.

The Bremen Turnover Tax

In 1863 the free city of Bremen levied a $\frac{1}{10}$ % tax on sales.³ A specified list of articles was exempted, as well as sales amounting to less than 50

¹ Geronymo de Uztariz, "The Theory and Practice of Commerce and Maritime Affairs," English translation, London, 1751, Vol. I, p. 81; Louis Baudin, "Une ancêtre de la taxe sur le chiffre d'affaires: l'alcabala espagnol," *Revue Politique et Parlementaire*, Vol. 112, pp. 429-439.

² C. H. Haring, "The Early Spanish Colonial Exchequer," *American Historical Review*, Vol. XXIII, pp. 786-787.

³ Grabower, "Geschichte der Umsatzsteuer," pp. 188-194.

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thalers in the course of a day. The merchants of Bremen complained that this tax placed them at a competitive disadvantage with the merchants of other parts of Germany, and the tax was abolished in 1884.

THE MODERN GERMAN TURNOVER TAXES

Germany was the first of the European powers to experiment with, and apply, the principles of general sales or turnover taxation in the Twentieth Century.

The Commodity Transfer Stamp Tax of 1916

In 1916 the Imperial Administration gave thought to the possibility of a general payments tax—a universal tax on transfers of money, checks and all other means of monetary or credit payment.¹ This proposal was early abandoned in favor of a turnover tax based on commodity transfers. The tax law of June 26, 1916 provided for a commodity transfer stamp tax (*Warenumsatzstempelsteuer*) with a rate of 0.1%. This tax was a "stamp tax" in name only. In the case of business concerns, the tax was based on an annual return of sales, with an exemption of M. 3,000 allowed. In the case of individuals, only transfers with a value in excess of M. 100² were taxed. In these cases the tax was collected through a revenue stamp attached to the instrument of sale. Only the transfers of commodities were taxable under this 1916 law; transfers of landed property, separately taxable, did not come under the commodity transfer stamp tax, nor did services.³

The General Turnover Tax of 1918

The further development of the 1916 tax was borne in mind from the very beginning. In Reichstag discussions and in private publications there were proposals for special taxes on the first transfer of commodities, on the sale of raw materials, and on final retail sales to the ultimate consumer. A proposal for a special sales tax on the final purchase of luxury articles came up in the Reichstag in 1917, but failed of passage. After serious consideration, the administration determined upon a general turnover tax (*Umsatzsteuer*) at a 0.5% rate, covering services as well as the transfer of commodities, coupled with special taxes on the retail sale of luxuries, with rates between 10% and 20%.⁴ These proposals were put before the Reichstag in April, 1918, together with proposals for eleven other specific levies—a beer excise, a wine excise, and so forth. The opposition of the social radicals was fruitless. The only important deviation from the original administra-

¹ R. van der Borcht, "Die deutschen Kriegsteuergesetze von 1916," *Finanz Archiv*, 1916, pp. 750-756.

² Johannes Popitz, "Gesetz über einen Warenumsatzstempel vom 26. Juni, 1916," *Jahrbuch des Steuerrechts*, 1920, pp. 325-333.

³ R. van der Borcht, "Die deutschen Kriegsteuergesetze von 1918," *Finanz Archiv*, 1919, pp. 267-285; Auerbach, "Die Luxusumsatzsteuer," *Zeitschrift für die gesamte Staatswissenschaft*, 1921, pp. 128-133; Alzada Comstock, "Taxation in the Modern State," New York, 1929, pp. 124-130.

tion proposal was that a single rate of 10% on the retail sales of luxuries was agreed upon, instead of the graduated rates of the original proposal. The law as passed was to be effective August 1, 1918, and it was provided that the tax should continue in operation for five years.

This German turnover tax of 1918 deserves special consideration, for it is the earliest and most clearly thought-out example of a general turnover tax in modern tax history. The basis of this turnover tax was "business activity," irrespective of whether it resulted in commodities in a finished state, commodities in an unfinished state, or services. The elements of this concept of taxable business activity were (1) a continuing, legal business or industrial activity (thus excluding incidental sales by individuals), (2) conducted for profit (thus excluding the distribution of commodities or the performance of services at cost or less than cost by charitable organizations and the activity of cooperative associations), (3) of an independent character (thus excluding the services of employees working for wages or salaries), and (4) not appertaining to the liberal professions.¹ Consumption by producers or tradesmen of their own stock was made a taxable transfer by law, but a special exemption of M. 2,000 was allowed on such personal consumption.

For special reasons, certain types of transfer were not made subject to the turnover tax. Exports were exempted, in order to reduce the tax handicap on German goods in foreign markets. Mainly because of the special circumstances of Germany's economic situation during the first years of the post-war period, the importation of commodities was exempted from the turnover tax. The first transfer of such commodities after importation was also exempted, unless this was a retail sale, with a view to protecting domestic importers from the indirect discrimination of the turnover tax against them and in favor of foreign exporters. For general economic considerations, transfers of the precious metals were exempted from the tax. The transfer of securities and credit instruments, transfers of land and leases (except of furnished rooms and movables), transportation, lotteries and insurance were excluded from the tax. These excluded transfers and services, however, were already taxed by independent transfer taxes; their exclusion from the general turnover tax was only to avoid double taxation. Finally, a general minimum annual exemption of M. 3,000 was allowed.

The basis of the 10% luxury tax was two-fold. On the one hand a specified list of obviously luxury articles, such as jewelry, furs, antique furniture, and so forth, was subjected to this tax. In addition, commodities that in general would be classified as necessities and semi-necessities, but which were of special quality, were held to be luxuries and subjected to the tax. There was also a two-fold division in the administration of this luxury tax. On a specified list of luxury articles the tax was collected as an excise from the producer (*Herstellersteuer*), and all later sales of such commodities were subject only to the rate of the general turnover tax.

¹ Johannes Popitz, "Kommentar zum Umsatzsteuergesetz vom 26. Juli, 1918," Berlin, 1918, pp. 50 ff.; also, Popitz, "Das (alte) Umsatzsteuergesetz vom 26. Juli, 1918," *Jahrbuch des Steuerrechts*, 1920, pp. 334-348.

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In all cases not covered by this specified list, the tax was collected as a retail sales tax (*Kleinhandelsteuer*).

Modifications of the 1918 Tax

Before the full effects of the 1918 turnover tax could be determined, an upward revision was made by the finance law of December 24, 1919,¹ of which the left wing parties, now controlling the Reichstag and desperately striving to avert national bankruptcy, were the proponents. The rate of the general turnover tax was raised from 0.5% to 1.5%, and that of the luxury tax from 10% to 15%. The exemption of the liberal professions was abandoned with the exception of doctors paid out of governmental funds. The minimum exemptions of the 1918 law were abolished. In their place an anomalous rebate was allowed to those merchants paying the tax who had dependent children under the age of sixteen. This rebate was graduated directly according to the number of the merchant's children, and inversely according to his annual net earnings. The general scheme of this tax was further rounded out by the imposition of a special tax on published advertisements, with rates graduated from 10% to 19%, and by the imposition of a tax on the renting of lodgings and furnished rooms.

Minor modifications of the German turnover tax were made in 1920, the most important being the abolition of the special rebate based on dependent children. By a revision of April 1, 1922, the rate of the general turnover tax was increased to 2%, the increase beginning retroactively January 1, 1922. Later amendments in 1922 and 1923 raised the rate of the tax to 2.5%, beginning with January, 1924, taxed and subsequently untaxed export sales, brought auxiliary import business under the tax, and extended the scope of the luxury and advertisement taxes. Provision was also made, in view of the fluctuating value of the mark, for the calculation of the tax in gold marks.²

Reduction of the General Turnover Tax

By the later months of 1924, Germany's fiscal crisis was passing, and a thought could be given to questions of tax reduction. It was widely felt that a 2.5% general turnover tax placed a heavy burden both on German industry and on German living conditions; in particular, the inclusion of the tax on export values was believed to injure Germany's position in international trade.³ Executive decrees in the closing months of 1924 and the opening months of 1925 reduced the rate of the general turnover tax, first to 2%, operative from October 1, 1924, and then to 1.5%, operative from January 1, 1925. At the same time, the rate of the luxury tax was lowered to 10%.

¹ Johannes Popitz, "Das (neue) Umsatzsteuergesetz vom 24. Dezember, 1919," *Jahrbuch des Steuerrechts*, 1920, pp. 349-369; R. van der Borcht, "Die Reichssteuergesetze vom 1919/20," *Finanz Archiv*, 1920, pp. 436-447.

² Rolf Grabower, "Das Umsatzsteuerrecht," *Jahrbuch des Steuerrechts*, 1924, pp. 209-295.

³ Luther, "Denkschrift," p. 2.

Increasing pressure was now being brought in favor of a further lowering of the rate of the turnover tax, if not for its complete abolition.¹ The organizations of wholesale merchants were particularly active in this movement. It is not surprising, therefore, that the great fiscal reform of the summer of 1925 included a further reduction of the turnover tax.² The rate of the general turnover tax was cut, first to 1.25% and later to 1%; the rate of the luxury tax was reduced to 7.5%. Again, in 1926, the rate of the turnover tax was reduced.³ It was the desire of the administration to bring the rate of the general turnover tax down to 0.5%, but the Reichstag set the rate of the general turnover tax at 0.75%, and the luxury turnover tax was abolished outright. At the same time; the services and productions of scholars, artists and authors were exempted from the tax when the annual turnover total for the individual was under M. 6,000. Farm produce consumed by the agriculturist and his family was exempted. No further change in the rates or general character of the tax has been made since 1926.

Yield of the German Turnover Taxes

During its early years, the yield of the turnover tax proved a severe disappointment to the German treasury authorities.⁴ 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. 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 15% of the total yield earmarked to the states and the local governments. It was soon seen that this expectation would not be realized, and in the 1919 national budget only M. 960 millions were attributed to the turnover tax. The total receipts for the fiscal year ended March 31, 1920 were M. 803.7 millions, of which 15% passed to the states and localities. However, with improving administration of the tax, with increasing rates, and with the progressive economic recovery of German industry and business, the yield of the turnover tax, both absolutely and relative to the total national revenue of Germany, mounted, as shown in Table 7. The year of greatest relative yield was from April, 1924 through March, 1925, when the general turnover tax plus the luxury taxes produced R.M. 1,913.6 millions, 27.5% of the federal internal revenue and 26.2% of the federal government's total tax revenue. The reductions of the rates of the tax after 1924 and the abolition of the luxury turnover tax reduced the annual yield, and since 1926 it has been under R. M. 1,000 millions.

¹ See Rolf Grabower, "Die Durchführung der Umsatzsteuer in vier Nachbarländern Deutschlands," *Steuer und Wirtschaft*, Vol. IV, p. 1772.

² Rolf Grabower, "Das Umsatzsteuerrecht," *Jahrbuch des Steuerrechts*, 1925, pp. 415-458.

³ Max Vehlou, "Die Umsatzsteuer," in Georg Strutz, "Handbuch des Reichsteuerrechts," Berlin, 1927, pp. 576-658.

⁴ Robert Kuczynski, "Ein Reichsfinanzprogramm für 1920," *Recht und Staat in Geschichte und Gegenwart*, Vol. 17, Tübingen, 1920, p. 49.

TABLE 7: RECEIPTS FROM THE GERMAN TURNOVER TAXES, FISCAL YEARS 1921 TO 1929

(Source: *Wirtschaft und Statistik*)

Tax	April, 1920 to March, 1921	April, 1921 to March, 1922	April, 1922 to March, 1923	April, 1923 to March, 1924	April, 1924 to March, 1925	April, 1925 to March, 1926	April, 1926 to March, 1927	April, 1927 to March, 1928	April, 1928 to March, 1929
<i>Amount (in millions)</i>									
Allgemeine Umsatzsteuer.....	..	..	..	..	R.M. 1,794.5	R.M. 1,338.3	R.M. 864.7	R.M. 877.6	R.M. 999.8
Erhöhte Umsatzsteuer.....	..	..	..	..	119.1	77.7	10.8	..	..
Total turnover taxes	M. 4,203.8	M. 11,195.2	M. 228,537	G. M. 608.0	R.M. 1,913.6	R.M. 1,416.0	R.M. 875.5	R.M. 877.6	R.M. 999.8
Total federal internal revenue.....	41,715.0	81,437.9	1,262,924	1,496.1	6,955.3	6,265.7	6,233.3	7,239.4	7,918.2
Total federal tax revenue.....	46,102.1	..	1,545,328	1,626.1	7,311.7	6,856.1	7,173.7	8,490.4	9,022.7
<i>Per Cent</i>									
Proportion of total turnover taxes to:									
Total federal internal revenue.....	10.1	13.7	18.1	40.6	27.5	22.6	14.0	12.1	12.6
Total federal tax revenue.....	9.1	..	14.8	37.4	26.2	20.7	12.2	10.4	11.1

THE FRENCH TURNOVER TAXES

In the spring of 1914 a special limited retail sales tax was enacted in France. With the idea of checking the encroachments of large merchandizing establishments upon small enterprises, the tax law of March 29, 1914 established a special progressive tax upon the sales of retailers with an annual turnover in excess of a million francs. The rate was 1.2% on the first million francs, or fraction of a million francs, over an annual turnover of a million francs, and increased with each million francs to 6% on the excess over fr. 200 millions. These rates were reduced in 1917 when the retail sales tax was levied.

This tax, though always subject to severe criticism, has persisted down to the present. In 1923, the year of its greatest yield, this tax produced fr. 27.5 millions of revenue, collected from 1,819 firms. It is of considerable importance in the history of French turnover taxation, however, since it was often referred to in the debates on the 1917 turnover tax, and undoubtedly influenced the form eventually given to this tax.

The Retail Sales Tax of 1917

The first suggestions for a broad turnover tax appeared in 1915,¹ when the French government was entering upon a course of heavy borrowing. The administration considered the project until 1917 and then laid a proposal before the Chambre for a 1% commodity transfer tax coupled with a 5% retail sales tax and a 10% luxury tax. Before this measure could be acted upon, there was a change in ministries, and the new finance minister, M. Klotz, placed a milder proposal for a retail sales tax before the Chambre. The measure passed almost as proposed. It provided for a 0.2% tax on retail sales exceeding fr. 150, the tax to be collected by stamps sold to purchasers; coupled with this general retail sales tax was a 10% tax on the retail sale of specified luxuries.²

The Commodity Transfer Tax of 1920

By 1919 it was realized that broader sources of tax revenue would have to be tapped. The proposal of a commodity transfer tax was again brought forward. The administration suggested a 1% commodity transfer tax, which it estimated would yield fr. 4.2 billions annually; in arriving at this estimate, the administration assumed five turnovers per commodity, in itself considerable of an overestimate, and then crudely multiplied the yield of the retail sales tax by this estimate of turnover, omitting to take into account the fact that the first turnover of each commodity would not be made at the high price of the retail sale. Later the administration revised its estimate of the possible revenue yield of the proposed commodity transfer tax and asked for a rate of 1.5%. The Chambre was unduly optimistic as to

¹ Toujas, "L'impôt sur le chiffre d'affaires," Toulouse, 1921, p. 6.

² On the 1917 and 1920 turnover tax laws, see: Auerbach, *op. cit.*, pp. 121-127; Georges Bonnet and Roger Auboin, "Les finances de la France," Paris, 1921, pp. 248-260; Toujas, *op. cit.*, pp. 6 ff.; Georges Vincent, "L'impôt sur le chiffre d'affaires," Paris, 1921.

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possible yield, and on June 25, 1920 voted only a 1% commodity transfer tax (*impôt sur le chiffre d'affaires*), which it thought would yield fr. 5 billions annually. An additional 0.1% was added to the levy for distribution to the local governments.¹ The tax was based on the gross monthly sales of manufacturers and merchants; in special cases it was provided that the tax period might be longer than a month—quarterly, semi-annually or annually. The administration was authorized to set minimum fees for petty shop keepers with turnovers under fr. 1,000 or fr. 4,000 according to their character.

The law of 1920 made all those who habitually or occasionally sold articles of commerce or articles manufactured by themselves, even though no profit should arise, subject to the tax. Railroads and public utilities were outside the scope of the tax because their rates were regulated. Farmers were not subject to the tax on the sale of their crops, this act being held not to be an "industrial or commercial" act within the meaning of the law. The creations of independent artisans and the services of licensed members of the liberal professions were not taxed. As a concession to popular feeling, the sale of bread was exempted from the tax; the sale of newspapers was also exempted as a special privilege. Transfers and sales otherwise taxed, such as stock transfers and the sale of pharmaceutical goods, theatre tickets and liquors, were exempted from the commodity transfer tax.

The 10% tax on sales of luxuries under the 1917 tax law was retained with an enlarged scope. The definition of luxuries was two-fold; certain specified articles were indicated in the law as luxuries *per se*, while in other cases, the *price* determined whether the article belonged in the necessity or luxury class. The 1920 law, in addition, levied a tax on the charges of hotels, restaurants, boarding houses and other establishments providing guest service. These were divided into three categories; establishments *de luxe* were taxed 10% on their services, semi-luxury establishments were taxed 3%, and all others were taxed at the 1.1% rate of the commodity transfer tax.

Modifications of the Commodity Transfer Tax

No significant changes were made in the French commodity transfer tax until 1923. In that year it was provided, for administrative reasons, that the luxury tax on the sale of automobiles should not be paid on the occasion of the retail sale, but should be collected from the manufacturer as an excise. The sale of war mementoes was exempted from the tax during the same year. The creations of independent artisans were now brought under the tax.

¹ On the 1920 French turnover tax and its modifications, see Franz Scholz, "Grundriss des französischen Steuerrechts unter besonderer Darstellung des französischen Umsatzsteuerrechts," *Veröffentlichungen der Steuerstelle des Reichsverbandes der Deutschen Industrie*, Vol. 4, Berlin, 1925, pp. 105-184; Rosier, "Traité théorique et pratique," Vol. II, pp. 9-60; Joachim Lemcke, "Die Vorgeschichte und gegenwärtige Gestaltung des französischen Steuersystems," *Finanzwirtschaftliche und Volkswirtschaftliche Studien*, Vol. 8, Jena, 1928, pp. 149-157; Allix et Lecercle, *op. cit.*; Comstock, *op. cit.*, pp. 130-136.

In 1924, the rate of the commodity transfer tax was increased from 1.1% to 1.3%, and the rates of the guest-service taxes were raised from 3% to 3.6% and from 10% to 12%. It was also provided that shopkeepers with small turnovers might have their annual turnover tax liability arbitrarily based on a calculation of the preceding year's turnover, and pay the tax in quarterly instead of monthly installments, thus relieving them from the necessity of detailed bookkeeping and reporting. In 1925, meats and coal and coke were subjected to special taxes, and their sale was therefore exempted from the commodity transfer tax. Modifications were also made in the system of import turnover taxes. Proposals for the retail exemption of all foodstuffs and for the exemption of all establishments with less than three employees failed.

In 1926, the rate of the general commodity transfer tax was again raised, this time to 2% for sales other than retail and to 2.5% for services, the increased rate to be effective for the remainder of the year; the rate on retail sales and newspapers was retained at 1.3%. The tax on the services of first class hotels was raised to 13%, that on second class establishments to 4%, while third class establishments were taxed at the 2% rate of the commodity transfer tax. In 1926, moreover, the law of the commodity transfer and luxury taxes was codified, giving these taxes a more permanent aspect than heretofore; the increased schedule of rates was made permanent, and retail sales and services were taxed at the 2% rate. Changes in the turnover tax law in 1927 and 1928 dealt with the taxation of imports and exports.

Yield of the French Turnover Taxes

The yield of the French turnover tax has increased steadily since its levy, as shown in Table 8. In 1920, the retail sales tax and luxury tax combined produced fr. 942.2 millions. The change to a commodity transfer tax more than doubled the yield of the French turnover tax, and 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 improving administration have steadily increased the yield of the French turnover tax and, as Table 8 indicates, its relative importance in the French national tax system has grown. 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. After 1926, the turnover tax was the largest single source of French tax revenue, displacing the income tax in this respect.

THE BELGIAN TURNOVER TAXES

The first Belgian turnover tax law was passed in 1921. The Belgian administration, therefore, could utilize the experience of the German and French turnover taxes. The experience was not without its effect on the form of the Belgian tax, for instead of being of a business tax based on the gross incomes of manufacturers and merchants, the Belgian turnover tax was levied as a transfer stamp tax, the stamps to be attached to all invoices

TABLE 8: RECEIPTS FROM THE FRENCH TURNOVER TAXES, 1921 TO 1928

(Source: Bulletin de Statistique et de Legislation Comparée. Computed by National Industrial Conference Board)

Tax	1921	1922	1923	1924	1925	1926	1927	1928
<i>Amount (in thousands)</i>								
Turnover tax.....	fr. 1,897,457	fr. 2,280,266	fr. 3,015,801	fr. 4,090,482	fr. 4,535,118	fr. 6,852,248	fr. 7,909,597	fr. 8,351,053
Consolidated tax on coal...	..	..	..	..	..	198,213	212,934	192,832
Consolidated tax on meat...	..	..	..	..	..	311,908	390,622	403,182
Consolidated tax on tea and coffee.....	..	..	..	..	..	..	..	196,719
Consolidated tax on animal foods and fertilisers.....	..	..	..	..	..	..	..	85,530
Consolidated tax on sugar...	..	..	..	..	..	..	..	31,337
Export turnover tax.....	..	..	..	..	..	105,549	92,329	1,543
Luxury tax.....	13,114	20,438	14,953	19,485	19,930	20,612	24,173	23,077
Total turnover taxes...	fr. 1,910,571	fr. 2,300,704	fr. 3,030,754	fr. 4,109,967	fr. 4,555,048	fr. 7,488,530	fr. 8,629,655	fr. 9,285,273
Total national internal revenue.....	(1)	12,875,385	15,604,062	20,831,523	23,218,504	32,284,098	(1)	(1)
Total national tax revenue.....	(1)	15,298,492	18,001,284	23,257,728	25,431,252	35,303,859	(1)	(1)
<i>Per Cent</i>								
Proportion of total turnover taxes to:								
Total national internal revenue.....	..	17.7	19.4	19.7	19.6	23.2	..	..
Total national tax revenue.....	..	15.0	16.8	17.4	17.9	21.2	..	..

¹ Figures not available.

and bills of sale. By this method it was hoped to overcome the administrative weaknesses that the German, and particularly the French, turnover taxes had shown.

The Commodity Transfer Stamp Tax of 1921

The tax law of August 28, 1921 provided a stamp tax (*taxe de transmission*) on the sale or exchange of commodities, with a rate of 1% of the sale or exchange price.¹ The sale of bread, flour for bread baking, meat and such other articles of first necessity as might be indicated by royal decree, and the transmission of water, gas and electricity were exempted from the tax. So, also, were sales under fr. 30 in amount; all sales made to the same person in the course of a day were considered a single sale so far as this exemption was concerned. An exemption of fr. 150 was also allowed to the farmer on the sale of his produce directly to a consumer.

Coupled with this commodity transfer stamp tax was a 5% tax on meals and lodgings 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.

Modifications of the Commodity Transfer Stamp Tax

Experience soon showed that the Belgian commodity transfer stamp tax, instead of being shifted in its entirety to consumers as was intended, rested upon producers and merchants who were in competition with combinations or associations which produced or marketed similar goods by methods involving fewer taxable transfers. To end this discrimination, and also for social reasons, the law of January 2, 1926 provided that a consolidated tax of 2% should be paid at one particular stage of the productive or distributive process of vegetable products, butter, by-product animal foods and fertilizers, and flax. A 1% consolidated tax was set for the sale of bread grains, coal and coke products and exported flax. The law provided that the series of transfer taxes on other commodities might also be consolidated at 2% by royal decree. The inspiration for this "consolidation" clearly came from the Austrian turnover tax law of 1922.²

The same law classified meals and lodgings according to the prices paid, and levied luxury taxes of 6%, 8% and 12% on them. General luxuries were also divided into two groups and their retail sale taxed 6% and 12%.

A law of June 8, 1926 raised the general rate of the tax to 2%. The lump-sum rates were also doubled to 4% and 2%. In addition, the sales of coal, gas and electricity, previously exempted, were taxed at a 2% lump-sum rate. The earlier exportation exemption of certain articles was ended. The luxury tax on meals and lodgings and on the heavier-taxed luxuries was set at 10%, but the schedule of prices determining the luxury character of such items was raised in view of the general rise in price levels. Still

¹ Robert J. Lemoine, "Budgets und Steuern in Belgien nach dem Kriege," *Finanz Archiv*, 1928, p. 166; articles by Rolf Grabower in *Steuer und Wirtschaft*, 1925, 1926 and 1928; Comstock, *op. cit.*, pp. 137-140.

² See p. 179 of this volume.

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later in the year the general luxury tax was split into two taxes. The first, at the rates of 6% and 10%, according to the character and price of the articles specified, was levied on the occasion of production or of importation. The second, at the same rates, was levied on the occasion of the retail sale of the specified commodities.

The modifications of 1927 and 1928 were of double character. On the one hand, the schedule of prices determining the "luxury" character of lodgings was raised and the rate of the tax was reduced to 5%, the tax on cakeshop and tea room service being maintained at 10%. On the other hand, a series of royal decrees provided for the consolidation of the tax on a number of specific commodities, mostly foodstuffs, at ratios of 4%, 3% and 2%. Hand in hand with this development of consolidation taxes went a provision for the rebate of these taxes upon the export of the taxed commodities.

Yield of the Belgian Turnover Taxes

The rate increases of the Belgian turnover and luxury turnover taxes have given these taxes first place in the Belgian tax system as revenue producers. Prior to the rate increase of 1926, these two taxes produced fr. 480 millions annually, 13.6% of the national internal revenue and 11.8% of the total national revenue, as shown in Table 9. Three years later, in 1928, the yield of the turnover and luxury turnover taxes had quadrupled, whereas the national tax revenue, as a whole, had only doubled. The fr. 2,160 millions of turnover tax revenue in 1928 was 27.2% of the Belgian internal tax revenue and 23.9% of the total national revenue.

THE ITALIAN TURNOVER TAX

During the war and post-war periods, the Italian government levied stamp taxes on the retail sale of a series of specified luxuries. These were superseded by the commodity transfer tax of March 18, 1923. A later modification joined to this commodity transfer tax those of the earlier independent sales taxes—on wines and perfumes—which had not been abolished. The combined tax was known as *la tassa generale di bollo sugli scambi commerciali*—the general stamp tax on commercial operations.

The Commodity Transfer Tax of 1923

The tax levied by the 1923 law rested upon commercial transfers between producers and merchants.¹ Not only those who customarily made commercial sales, but also those who occasionally, as an incident to their general business, made sales to producers or merchants, were subjected to the tax. The final retail sale, however, between merchant and consumer was not brought under the tax, since under the Italian law it was not a "commercial" transaction; a semi-exception to this principle was made in the case of expensive luxury articles which were taxed when sold by pro-

¹ Alberto De Stefani, "Lezioni sugli ordinamenti finanziari italiani," Rome, 1926, pp. 209-221.

TABLE 9: RECEIPTS FROM THE BELGIAN TURNOVER TAXES, 1921 TO 1928

(Source: Belgian Ministry of Finance)

Tax	1921	1922	1923	1924	1925	1926	1927	1928
<i>Amount (in millions)</i>								
Taxe de transmission	fr. 41.6	fr. 280.3	fr. 345.9	fr. 450.0	fr. 450.0	fr. 700.0	fr. 1,250.0	fr. 1,500.0
Taxe de luxe .....	..	9.0	19.0	30.0	30.0	150.0	475.0	560.0
Total turnover taxes	fr. 41.6	fr. 289.3	fr. 364.9	fr. 480.0 ¹	fr. 480.0 ¹	fr. 850.0 ¹	fr. 1,725.0 ¹	fr. 2,160.0 ¹
Total national internal revenue....	995.7	1,623.4	2,762.1	2,961.0	3,516.9	5,228.5	7,013.2	7,936.7 ¹
Total national tax revenue	1,246.8	2,019.3	3,125.6	3,394.2	4,068.1	5,937.1	7,914.6	9,033.8 ¹
<i>Per Cent</i>								
Proportion of total turnover taxes to:								
Total national internal revenue....	4.2	17.8	13.2	16.2	13.6	16.3	24.6	27.2
Total national tax revenue.....	3.3	14.3	11.7	14.1	11.8	14.3	21.8	23.9

¹ Estimate by Belgian Ministry of Finance.

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ducers to consumers, so as to discourage attempts at avoidance of the tax by direct purchase from producers.

Four rates of taxation were provided. Transfers of raw materials exclusive of luxury articles and precious stones, construction materials, ingot metal, and agricultural implements were taxed 0.5%. Transfers of all commodities not included in the 0.5% rate above or in the 2% and 3% rates mentioned below were taxed 1%. Transfers of a specified list of luxury articles, including precious stones, silks, ivory and amber objects, laces, oriental rugs and automobiles above 25 horsepower were taxed 2%. Transfers of pharmaceutical specialties, perfumes, mineral waters and effervescent wines were taxed 3%. Food products of first necessity, whether domestic or foreign, combustibles, washing soap, water, gas and electricity, and the objects of the state monopolies were not subject to the tax. In general, sales of domestic farm products were not taxable, since agriculturalists were not held to be industrial producers or merchants under the Italian law. Imports were taxed at entry; exports were exempt.

Unlike the turnover taxes of most of the other European countries, the Italian tax was not collected on the basis of periodical returns, but through a stamp or remittance attached to a duplicate bill of sale for each transaction. If the tax on the transaction exceeded lire 1,000, it might be paid by a money order; if the tax was for a smaller amount, it might be paid by revenue stamps affixed to the bill of sale or by a remittance in any suitable medium accompanying the document. Administration of the law was strict, and infractions were punished by fines amounting to ten times, twenty times and one hundred times the tax.

The original law provided that the tax on certain articles, such as meat and wine, should be lump-summed; in the case of meat, the tax was paid at the time the animal was slaughtered, and all subsequent transfers of its flesh were not taxable.

Yield of the Italian Turnover Tax

Without changes in the rate schedule or the essential structure of the Italian turnover tax, its yield increased from lire 271.7 millions for the fiscal year ended in June, 1923, to lire 889.5 millions for the fiscal year ended in June, 1926, as shown in Table 10. In the latter year, the revenue from the Italian turnover tax represented 7.6% of the national internal revenue and 6.1% of the total national tax revenue. Improvement in the administration of the tax through continued experience, currency depreciation and growth in the turnover of Italian business account for the increase in yield.

In the fiscal years ended in 1927 and in 1928, as the value of the lira increased, the yield of the Italian turnover tax fell off, as did the yield of the Italian taxes generally, and in the latter year the revenue from the Italian turnover tax was lire 642.7 millions.

THE AUSTRIAN TURNOVER TAX

A general turnover tax was first proposed in Austria in 1920. Failing of acceptance in this year, it was again brought up in 1922 and was included

TABLE 10: RECEIPTS FROM THE ITALIAN TURNOVER TAX,
FISCAL YEARS 1923 TO 1928
(Source: Conti Riassuntivi del Tesoro)

Tax	July, 1922 to June, 1923	July, 1923 to June, 1924	July, 1924 to June, 1925	July, 1925 to June, 1926	July, 1926 to June, 1927	July, 1927 to June, 1928
<i>Amount (in millions)</i>						
Tassa sugli scambi commerciali.....	lire 271.7	lire 581.8	lire 758.5	lire 889.5	lire 783.2	lire 642.7
Total national internal revenue.....	lire 8,692.9	lire 10,998.8	lire 10,710.6	lire 11,709.6	lire 11,550.2	lire 10,674.2
Total national tax revenue.....	10,811.6	13,182.1	13,024.5	14,564.8	14,297.5	13,301.3
<i>Per Cent</i>						
Proportion of total turnover taxes to:						
Total national internal revenue.....	3.1	5.3	7.1	7.6	6.8	6.0
Total national tax revenue.....	2.5	4.4	5.8	6.1	5.5	4.8

in the Finance Law of November 27, 1922¹, linking up with earlier bank and security transfer taxes. The rate for 1923 was fixed at 1% on general inland sales and commercial services, while the sale of luxuries was taxed 12%. This 1922 law provided that the general turnover tax rate for 1924 should be 2%.

Rate Consolidation

The unusual feature of the Austrian turnover tax law was the provision, first made by decree of March 11, 1923, for the consolidated payment of the tax covering all turnovers of given commodities, thereby eliminating the usual discrimination of the tax in favor of multiple-process concerns and against independent-process enterprises.² The problems of determining the commodities to which this consolidated payment would apply, and of determining the rate of the consolidated payment, were left to the administration. According to the consolidated rates set on the basis of the 1923 rate of 1%, the lump-sum taxes varied from 2% to 6%, with 3.5% as an average rate. The payment of this consolidated tax at one or another of a commodity's industrial or commercial stages exempted all subsequent and prior transfers from the turnover tax. The consolidated tax on flour, for example, which was 4%, covered the sale of bread and all baked products; the 4% consolidated tax on meat covered the manufacture and sale of bolognas; the 3% consolidated tax on milk covered the manufacture

¹ Victor Kienbock, "Das österreichische Sanierungswerk," Finanz und Volkswirtschaftliche Zeitfragen, Vol. 85, Berlin, 1925, p. 169; Rolf Grabower, "Die wirtschaftlichen Hauptfragen der allgemeinen Umsatzsteuer und ihre Regelung im Inland und im Ausland," Steuer und Wirtschaft, Vol. IV, pp. 36-43; Rudolf Müller, "Die indirekten Bundesabgaben in Österreich," Vienna, 1928, pp. 369-406.

² See pp. 24 ff. of this volume.

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and sale of butter and cheese. Imports paid an adjusted consolidated turnover tax as well as their regular customs duties. Rebates, calculated on the difference in turnover tax burdens between domestic and foreign products, were allowed on exported goods with a view to offsetting the discrimination against domestic production which it was believed resulted from the domestic turnover tax.

No changes have been made in the fundamental character of the Austrian turnover tax. There have been many modifications of the schedule of consolidated rates and of the corresponding schedule of consolidated transfer taxes to be paid on the occasion of importation, as a result of price changes and changes in consumption demand. The schedule for internal consolidated rates embraces four hundred categories of commodities. The schedules for the import turnover tax and for the export rebate also run to hundreds of categories. One general tendency of recent years to be noted in the Austrian turnover tax is the increasing liberality of the export rebate.

Yield of the Austrian Turnover Tax

Austria places more dependence on the turnover tax as a major element of its national tax system than any other European country. As shown in Table 11, in 1924, the first year of the full operation of the turnover tax, it produced Sch. 202.7 millions, 29% of the national internal revenue and 23.9% of the total national tax revenue. By 1927 the yield of the tax had increased to Sch. 237.1 millions, 30.8% of the national internal revenue and 22.5% of the total national tax revenue.

TABLE 11: RECEIPTS FROM THE AUSTRIAN TURNOVER TAX, 1923 TO 1928

(Source: Austrian Ministry of Finance)

Tax	1923	1924	1925	1926	1927
<i>Amount (in millions)</i>					
Turnover tax.....	Sch. 56.0	Sch. 202.7	Sch. 225.9	Sch. 227.3	Sch. 237.1
Total national internal revenue.....	Sch. 511.1	Sch. 699.3	Sch. 707.0	Sch. 746.2	Sch. 769.0
Total national tax revenue.....	620.9	847.1	907.9	959.9	1009.6
<i>Per Cent</i>					
Proportion of total turnover taxes to:					
Total national internal revenue.....	11.0	29.0	31.9	30.5	30.8
Total national tax revenue.....	9.0	23.9	24.9	23.7	22.5

OTHER EUROPEAN TURNOVER TAXES

Several other European countries have levied general sales or turnover taxes which are contributing materially to their tax revenues. Brief sketches of the more significant of these taxes follow.

The Hungarian Turnover Tax

A 1.5% general turnover tax was levied in Hungary in 1921.¹ The German law was taken as a model, and the tax covered commodity transfers and the performance of commercial and professional services. As distinguished from the German tax, however, imports were taxed at the general turnover tax rate. Combined with this general turnover tax was a luxury tax, with a rate of 10% when collected from retail dealers and 13% when collected from producers.

Subsequent modifications effected important changes in the Hungarian turnover tax. The tax was increased to 3% in 1922, at which rate it produced one-third of the total gross revenue of the state,² and was again lowered to 2% in 1925. The list of exemptions was extended in later years, particularly in 1927. The most significant development was the application of the Austrian principle of consolidating the tax, with consequential consolidated import turnover duties and consolidated export rebates. The Hungarian tax administration also found it advisable to copy the French system of compounding for arbitrary sums the turnover taxes of small dealers and business men, thus relieving them of the necessity of keeping full business books and also relieving the administration of the necessity of checking their returns. A unique administrative feature of the Hungarian turnover tax is the levy of the tax on professional services, not on the professional man himself, but on the associations of professional men. These organizations, whose membership covers all practicing professionals in Hungary, pay the tax for the entire profession, and then assess the tax on their members according to their own standards.

The Czechoslovak Turnover Tax

General and luxury turnover taxes were enacted in Czechoslovakia in 1919 and 1921. In 1923, a revision of the tax law modeled the Czechoslovak tax closely upon the Austrian tax of the preceding year.³ The gross sales price, including costs of packing, transportation, interest charges, and corresponding items, was made the basis of the tax. Sales to or by any agent, as well as transfers between principal and agent, were taxed. An

¹ Wilhelm Lenart, "Das ungarische Steuersystem," *Ungarisches Wirtschaftsjahrbuch*, 1927, p. 249; Comstock, *op. cit.*, pp. 148-149.

² League of Nations, "Financial Reconstruction of Hungary," Report No. XIV, p. 2.

³ Rolf Grabower, "Die Durchführung der Umsatzsteuer in vier Nachbarländern Deutschlands," *Steuer und Wirtschaft*, Vol. IV, pp. 1231-1266; Rudolf Schranil, "Die Steuern und die Steuerbelastung in der tschechoslowakischen Republik im Jahre 1926," *Mitteilungen der Steuerstelle des Reichsverbandes der deutschen Industrie*, 1926, p. 162; Comstock, *op. cit.*, pp. 141-144.

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exceptional feature of the law was the extension of the tax to transfers of objects between establishments under a single ownership, where no real "sale" had occurred. The earlier taxes, as well as that of 1923, provided for consolidating the pyramided tax on certain articles, but the extent of the consolidation under the Czechoslovak law was not as great as under the Austrian tax, and the principle of consolidation has come to be connected with the Austrian rather than with the Czechoslovak tax.

The general rate for the turnover tax was fixed at 1% in 1919 and at 2% in 1921, but the Minister of Finance was given power to raise the rate on sales of foreign goods that competed with domestic products. Sales of agricultural products, bread, meat, game and fish were taxed 1%. Imports were not taxed at entry, but deliveries from abroad contracted for within the country were treated not as imports but as domestic sales, and were subjected to the tax. The rates of the luxury tax were fixed at 12% when levied on the producers or at importation, and 10% when levied on the retail sale.

Changes to the present time have been minor, the most important being a reduction of the list of articles subject to the luxury tax. The turnover tax produces from one-fifth to one-fourth of the Czechoslovak national tax revenue.

The Polish Turnover Tax

A Polish turnover tax, coupled with a business license tax, was first levied in 1923.¹ It was of the commodity transfer type, with the tax in general levied on the reported gross income of merchants and manufacturers. There were several exceptions to this rule, however, for the law authorized deductions on account of discounts, and 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.

The basic rate of the tax was 2%, but amendments in 1925 provided for complicated discriminations. Agricultural products were exempted. 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, whether acting as forwarding agents, carriers, or in any other capacity. The tax law gave the Minister of Finance, in conjunction with the Minister of Commerce, the power to lower the tax rate by as much as 1% in the case of specific wholesale dealers and in the case of exports; this power was exercised in decrees of

¹ Republic of Poland, "Reports submitted by the commission of American financial experts headed by Dr. E. W. Kemmerer," Warsaw, 1926, pp. 150-169; Edward Taylor, "Finanzpolitik und Steuersystem der Republik Polen," *Finanzwirtschaftliche und Volkswirtschaftliche Studien*, Vol. 12, Jena, 1928, pp. 239-251; Comstock, *op. cit.*, pp. 144-147; Rolf Grabower, "Die Umsatzsteuer im Ausland während der letzten 12 Monate," *Steuer und Wirtschaft*, Vol. V, pp. 1235-1238.

1925 and 1926. Additional local rates may be, and in some cases are, levied up to one-quarter of the national rate.

Assessment of the tax is made by local boards on the basis of returns submitted, or on presumptive evidence where incomplete or no returns are submitted; the responsibility resting on these local boards is indicated by the fact that in 1925 the tax based on enterprises making no official returns was more than double that on enterprises making returns. The general consensus of opinion of foreign experts who have studied the Polish turnover tax is that it requires much simplification.¹

The Roumanian Turnover Tax

The Roumanian turnover tax, first levied in 1921, combines a commodity transfer tax with a series of luxury taxes. Domestic sales and transfers of manufactured articles and of raw materials, with certain exceptions, are taxed 2%. Exports in certain categories are taxed 1%. The tax is not based on the actual sales price of the article sold or transferred, however, but on an average price per unit as fixed by the Ministry of Finance; the schedule of average prices published for 1927 and 1928 contains 1,893 categories of articles, many of which have numerous subdivisions.

Three categories are set for the luxury tax. The first, including spirits and toilette articles, is subject to a 20% tax. Other luxury articles are subjected to a 15% or a 10% tax, according to their character.

The Turkish Turnover Taxes

In the winter of 1925 the Turkish government levied a tax on commodity sales and certain services with rates at 2% and 2.5%. The exemptions included bread, articles subject to the state monopolies, entertainments, and purchases for hotels and restaurants.

In 1927, Turkey changed the character of its turnover tax from a commodity transfer tax to a production tax on goods manufactured by machine processes. The rate was fixed at 6% for goods intended for internal consumption and 2.5% for goods intended for export. Handicraft industries were exempted, as were bakeries, and the printing of newspapers and books. Imported manufactured articles were taxed 6% at the time of import, in order that the internal tax should not cripple domestic industry. The Turkish government estimated that this general excise would produce 49.7% of its internal tax revenue and 32.3% of its total tax revenue (including customs).

The Turnover Tax of Soviet Russia

Since 1921, the soviet government of Russia has levied a combined license and turnover tax on manufacturers and merchants.² The turnover

¹ Republic of Poland, *op. cit.*, pp. 150-169; E. Hilton Young, "Report on Financial Conditions in Poland," Warsaw, 1924, pp. 57, 58; *Bulletin of the Bank of Poland*, No. 4 (1928), pp. 11, 12.

² Paul Haensel, "Die Finanz- und Steuerfassung der Union der Sozialistischen Sowjet-Republiken," *Finanzwirtschaftliche and Volkswirtschaftliche Studien*, Vol. 10, Jena, 1928, pp. 33-35.

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tax so levied is not pure in form, but is rather a combination of a gross sales tax and a semi-business-income tax. Wholesale and retail merchants are taxed on their gross income; manufacturers are taxed on their gross income minus the cost of their raw materials; transportation companies and financial organizations are taxed on their net income; cooperative associations are taxed on their net income from sales to non-cooperatives.

No general tax rate is fixed, but a schedule with 158 classifications establishes independent rates for various classes of business enterprises. On the average, manufacturers are taxed 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. In general, 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. This power was abolished in December, 1926, and the tax is now based on a fixed schedule.

The administrative provisions of the Russian tax are detailed and severe, but the meager acquaintance of Russian business men, particularly small retailers, with western accounting methods, makes some leeway in the collection of the tax inevitable. In Moscow, where 22% of the taxable turnovers of Russia occur, 45% of the accounts submitted by merchants in 1926, and 23% of those submitted by manufacturers, proved inadequate for the purposes of the tax.¹ In practice, it is necessary in many cases to make arbitrary estimates of the taxable turnover; in the case of manufacturers, average production per worker or per machine may be used; in the case of merchants, such factors as rent, number of employees, number of customers and so forth are taken into consideration.

THE LATIN AMERICAN TURNOVER TAXES

The *alcavala*, introduced by order of the Spanish crown into Spanish America,² lasted only as long as the New World remained subject to the Old. It was swept away in the struggles for independence during the third decade of the Nineteenth Century and did not reappear for a century. Within the past few years, four Latin American countries—Bolivia, Brazil, Cuba and Ecuador—have enacted turnover tax laws. Several other Latin American countries have extended systems of special excises or consumption taxes. Although in instances the scope of these consumption tax systems is quite broad, they do not have the universality and uniformity necessary to classify them as general sales or turnover taxes.

The Bolivian Turnover Tax

After two years' experience with a 5% business income tax, the Bolivian government was persuaded that its capacities for fiscal administration were

¹ *Ibid.*, p. 43.

² See p. 165 of this volume.

not sufficient to cope successfully with a net income tax. On December 12, 1923, a 0.5% commodity transfer tax and a 2% tax on commercial services were substituted for the business income tax.¹ The new tax extended to all industrial and mercantile sales except such as were already subject to sales taxation under other parts of the national tax system. A minimum exemption was allowed, based, however, not on turnover but on capital investment. The 2% tax on commercial services extended to brokers, express companies, insurance companies, money changers and similar business activities.

The Brazilian Turnover Tax

For three-quarters of a century Brazil has had a "consumption tax," embracing a series of excises on specific commodities or articles. The items subject to the tax are specified and the rates are individual. This tax, like the Mexican consumption tax, did not at first possess the uniformity and universality necessary to a general sales or turnover tax. A law of December 31, 1922, however, rounded out this consumption tax with a general tax on other, heretofore untaxed sales. The rate on retail sales is 2%, on wholesale sales 1%. The sales of their own products by agriculturalists and professional services are exempted. Commercial services are taxed.

The Cuban Commodity Transfer Tax

The Republic of Cuba enacted a 1% commodity transfer tax in October, 1922. It applied to all sales by merchants and manufacturers, and extended to the special services of contractors, wharfingers, drydocks, public services, hotels and restaurants. The exemptions allowed fell into three main categories: (1) the sale of articles already covered by special excises, (2) the sale of agricultural and food products, and (3) a series of minimum exemptions—the sales of merchants with quarterly turnovers under \$1,000, the sales of peddlers with daily turnovers under \$10, and the sales of artisans working at home with individual daily outputs under \$5. The export of raw and partly manufactured products was also exempted. The tax was made payable quarterly.

In 1925 the rate of the tax was increased to 1.5%.

The Turnover Tax of Ecuador

In 1924 a 1% commodity transfer tax was levied in Ecuador. Sales of their own produce by agriculturalists were exempted. The exemption of peddlers' sales, a common element of Latin American turnover taxes, was featured.

THE CANADIAN TURNOVER TAXES

Canada entered the post-war period with high federal income and excess profits taxes. The excess profits tax was soon abolished and sharp reductions were made in the rates of the income tax. Consequently, the Cana-

¹ Charles A. McQueen, "Bolivian Public Finance," Department of Commerce, Trade Promotion Series No. 6, 1925, p. 24.

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dian dominion government had to develop a substitute source of revenue. A turnover tax was enacted in 1920.

The Manufacturers' and Merchants' Sales Tax of 1920

The Canadian dominion revenue law of 1920 (10-11 Geo. V, ch. 71) levied a 1% tax on the sales of manufacturers (when not made directly to retailers or to consumers), of wholesalers and of jobbers, and a 2% tax on the sales made by manufacturers directly to retailers and consumers. A long list of exemptions sharply restricted the scope of the tax. Among the most important exempted articles were uncanned foodstuffs, clothing, fuels, gas and electricity, unbound printed materials, unfinished wood products, metallic ores and crude metals.

In 1921 (11-12 Geo. V, ch. 50) the rates of the Canadian turnover tax were raised and its scope broadened. The rates of the tax were increased one-half, and a new category introduced by taxing sales of lumber by Canadian producers at 2%. The list of exemptions was expanded and the Governor in Council was empowered to add to the list of exemptions specified in the law. Compensating import duties of 2% on wholesale merchants' imports and 4% on importations by retailers and consumers were levied by the same law; the importation of lumber was taxed 3%. Export sales were not taxed; moreover, a drawback or rebate up to 99% of the sales tax previously paid was allowed on exported articles.

In the following year (12-13 Geo. V, ch. 47) the rates of the manufacturers' and merchants' sales tax were again increased by one-half. The exemption accorded to foodstuffs was increased by specific mention of salt, evaporated and powdered milk and various flours.

The Manufacturers' Excise of 1923

In 1923 (13-14 Geo. V, ch. 70) the character of the Canadian turnover tax was changed from a manufacturers' and merchants' sales tax to a production tax on manufacturers. The rate was fixed at 6%, and lumber was taken off the list of specially treated articles.

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. Also, wholesale merchants and jobbers selling more than 50% of their turnover to licensed manufacturers were required to be licensed. Such part of a manufacturer's output as was sold to other licensed manufacturers or wholesalers was exempted from the tax, the entire tax on the finished article being 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. Apart from the exempted list, the only goods manufactured in Canada escaping the tax were those produced from raw material 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

TABLE 12: RECEIPTS FROM THE CANADIAN TURNOVER TAXES, FISCAL YEARS 1921 TO 1928
(Source: Canadian Year Books)

Tax	April, 1920 to March, 1921	April, 1921 to March, 1922	April, 1922 to March, 1923	April, 1923 to March, 1924	April, 1924 to March, 1925	April, 1925 to March, 1926	April, 1926 to March, 1927	April, 1927 to March, 1928
<i>Amount (in thousands)</i>								
Domestic sales	\$27,910	\$44,820	\$62,686	\$71,835	\$51,253	\$57,254	\$63,940	\$55,379
Import sales	10,218	16,699	28,577	29,155	15,454	16,771	18,366	16,721
Total dominion turnover tax¹	\$38,128	\$61,519	\$91,263	\$100,990	\$66,707	\$74,025	\$82,306	\$72,100
Total dominion internal revenue²	205,503	214,239	217,397	220,218	185,768	200,220	204,680	207,684
Total dominion tax revenue²	368,770	319,926	335,453	341,719	293,915	327,575	346,649	379,557
<i>Per Cent</i>								
Proportion of total turnover taxes to								
Total dominion internal revenue...	18.6	28.7	42.0	45.9	35.9	37.0	40.2	34.7
Total dominion tax revenue.....	10.3	19.2	27.2	29.6	22.7	22.6	23.7	19.0

¹ Accrued revenue.

² Cash receipts.

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them resold to retailers and consumers. Even here a check was imposed 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."

A special 6% import duty was laid on the importation of goods subject to the sales tax. This tax was refunded, however, when such goods were purchased by a licensed manufacturer or wholesaler who would have to pay a tax on their resale, but this refund was not allowed to unlicensed manufacturers who would not be taxed on the resale of such articles after further fabrication. The amount of sales tax paid on Canadian or imported articles was refunded when such articles were exported.

The series of exemptions under the 1921 and 1922 laws was maintained in the new law (with a few unimportant exceptions) and some additional articles were added to the list.

Amendments to the Manufacturers' Excise

In 1924 the rate of the Canadian production tax was changed from 6% to 5%. The limitation of licensing to manufacturers with an annual turnover in excess of \$10,000 was ended; all manufacturers now had to take out licenses, except such concerns manufacturing exclusively for local retail trade as might be specifically exempted by the Ministry of Finance. All wholesalers and jobbers were now permitted to take out licenses carrying exemption from the tax on goods purchased by them, but obligating them to pay the tax on sales made to other than licensed manufacturers or dealers.

The list of exempted articles was further widened in 1925, the most important additions being prepared cereal foods and a long list of industrial articles. In 1927 the rate of the tax was reduced from 5% to 4%. In the following year the rate was again reduced by another one per cent.

Yield of the Canadian Turnover Taxes

The Canadian turnover taxes have been a major element of the Dominion tax system since the date of their first levy. 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. As shown in Table 12, the rate increases of 1921 and 1922 and the change to a high-rate production tax in 1923 resulted in a rapid increase of revenue from the turnover tax. The maximum yield occurred in the fiscal year ended in 1924, when the tax produced \$101 millions, 45.9% of the dominion internal revenue. The reduction of the rate of the production tax from 6% to 5%, the increased scope of the exemptions 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. In the fiscal year ended March, 1928, the yield of the tax declined by about \$10 million to a total of \$72.1 millions. From one-fifth to one-third of the yield of the Canadian turnover taxes has been derived from the compensatory charges on imports.

APPENDIX II

TURNOVER TAXES IN THE UNITED STATES

The turnover tax is not entirely foreign to American fiscal history. A manufacturers' sales tax was levied by the Federal Government during the Civil War period. From 1918 to 1921, there were many proposals for federal turnover taxes as substitutes for the excess profits and corporation income taxes then in force, but, although several bills to this effect were introduced into Congress, none was enacted. Of the states, only West Virginia has enacted an all-inclusive turnover tax, but several others use partial general sales or turnover taxes as elements in their systems of business taxation.

THE FEDERAL CIVIL WAR TURNOVER TAXES

Among the proposals for additional federal internal revenue submitted to Congress in 1862 were several for general turnover taxes. These proposals had the support of the trade and commercial organizations of the country, particularly of those in the East. The Ways and Means Committee was opposed to the principle, however, and amendments to the revenue bill which would have provided for turnover taxation were voted down in both houses.

The Manufacturers' Sales Tax of 1862

In place of a general turnover tax, the revenue law of 1862 provided for a manufacturers' sales tax covering all manufactured articles and leaf tobacco, coal and raw cotton.¹ Where the quality of the taxed commodity was standardized or capable of classification, the tax was specific. Otherwise, ad valorem duties at rates between 3% and 5% were levied. An exemption up to \$600 was allowed for products consumed by their own producers. Since all manufacturing processes came under the tax and no rebates or drawbacks were allowed, cumulative taxation of constituent parts and of the finished article frequently occurred.

In subsequent years the rates of both the specific and ad valorem duties were increased, and by 1865 the general level of the tax, on an ad valorem basis, was 6%. In 1864, moreover, a 3% tax was levied on repairs that increased the value of the article by more than 10%, and a 5% tax was levied on the value added by subsidiary processes such as polishing, painting, ornamenting and so forth.

¹ Frederic C. Howe, "Taxation and Taxes in the United States under the Internal Revenue System, 1791-1895," New York, 1896, pp. 126-135; Harry Edwin Smith, "The United States Federal Internal Tax History from 1861 to 1871," Boston, 1914, pp. 225-252, 257-263.

TABLE 13: RECEIPTS FROM THE AMERICAN CIVIL WAR TURNOVER TAXES, FISCAL YEARS 1863 TO 1871
 (Source: Harry E. Smith, "The United States Internal Tax History from 1861 to 1871," Appendix. Computed by the National Industrial Conference Board)

Tax	July, 1862 to June, 1863	July, 1863 to June, 1864	July, 1864 to June, 1865	July, 1865 to June, 1866	July, 1866 to June, 1867	July, 1867 to June, 1868	July, 1868 to June, 1869	July, 1869 to June, 1870	July, 1870 to June, 1871	July, 1862 to June, 1871
<i>Amount (in thousands)</i>										
Manufacturers' sales tax.....	\$17,236	\$36,921	\$74,580	\$128,522	\$91,794	\$61,656	\$3,345	\$3,017	\$3,632	\$420,702
Other sales taxes.....	64	141	4,062	4,002	3,999	4,596	8,207	8,837	3,650	37,559
Combined sales taxes ¹	\$17,300	\$37,062	\$78,642	\$132,524	\$95,793	\$66,252	\$11,552	\$11,854	\$7,282	\$458,261
Total federal internal revenue.....	42,488	117,621	214,304	310,972	270,056	192,969	160,805	185,465	144,592	1,639,272
Total federal tax revenue ² ..	111,548	219,937	299,232	490,019	446,474	357,434	340,853	380,003	350,862	2,996,362
<i>Per Cent</i>										
Proportion of combined sales taxes to:										
Total federal internal revenue	40.7	31.5	36.7	42.6	35.5	34.3	7.2	6.4	5.0	28.0
Total federal tax revenue....	15.5	16.9	26.3	27.0	21.5	18.5	3.4	3.1	2.1	15.3

¹ Exclusive of the excises on tobacco and liquors.

² Including customs receipts on warrant basis.

In 1866, a special revenue commission proposed the abolition of the taxes on repairs, on clothes, on raw materials such as pig iron, coal and petroleum, and on books and printed matter. These recommendations were not followed exactly, but many of these taxes were abolished and others reduced by Congress in 1866 and subsequent years.

The Civil War Dealers' Sales Taxes

The revenue law of 1862, which imposed the manufacturers' sales tax, also levied a tax of 0.1% on sales at auctions. In 1864 the rate of this tax was increased to 0.25% and, by a related law, brokers and bankers were taxed 0.125% on sales of commodities and 0.05% on sales of instruments. The rates of both the auction sales tax and the bankers' and brokers' tax were reduced in 1866.

In 1867, the scope of the system of federal turnover taxes was broadened slightly by subjecting the sales of apothecaries, butchers, confectioners, plumbers and gasfitters to a tax of 0.1% on the annual excess of their turnover above \$25,000. Finally, in 1868, the sales by manufacturers of all articles not taxed under the remaining fragments of the manufacturers' sales tax were subjected to a tax of 0.2%. In 1870 all the federal sales taxes except those on tobacco and liquor were abolished.

Yield of the Civil War Turnover Taxes

During the nine years during which they were collected, the federal turnover taxes yielded 28% of the total of the Federal Government's internal revenue. As shown in Table 13, the manufacturers' sales tax in the year of its greatest productivity, 1866, yielded \$128.5 millions, 41.3% of the total federal internal revenue for the year. The other sales taxes never yielded such a high total. In 1869 they produced \$8.2 millions and in 1870, \$8.8 millions, on 5.1% of the total federal internal revenue for the former year and 4.8% for the latter.

THE PROPOSED FEDERAL TURNOVER TAX OF 1921

The general sales or turnover tax remained a dead issue in American federal politics until 1918. From 1918 on, the bitter opposition to the federal excess profits tax and to the high rates of the surtax on individual incomes provoked a search for possible substitutes. Among others, the project of a general sales tax was given consideration. At first, the proposal was approached gingerly, but as sentiment for a federal turnover tax augmented, the issue was debated openly and heatedly, and quite a voluminous literature on the subject appeared.¹ The acme of the controversy

¹ Morris R. Frey, "Needed Reform in the Present Federal Tax Laws," *Trust Companies Magazine*, November, 1919; Harris Winthrop & Co., "A Cross Section of Facts and Feelings in Business America," New York, 1919; Thomas S. Adama, "Needed Tax Reform in the United States," New York, 1920; Jules S. Bache, "Release Business from the Slavery of Taxation," New York, 1920; Hazen James Burton, "The Sales Tax," Minneapolis, 1920; Business Men's National Committee, "Primer Gross Sales or Turnover Tax," New York, 1920; Harris Winthrop & Co., "A Composite Picture of Business America," New York; Otto Kahn, "Some

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came in 1921 when the Senate Finance Committee opened its hearings to the proponents and opponents of the tax,¹ and Senator Smoot introduced alternative amendments to the House Revenue Bill providing for a commodity transfer tax and for a production tax.

The Smoot Amendments

A House bill for a "general sales tax" as a substitute for the excess profits tax and to provide revenue for a soldiers' bonus (H.R. 14956) was presented in the final session of the Sixty-sixth Congress. It received unfavorable notice on the floor of the House² and died in the Ways and Means Committee.

The first serious proposal for a federal turnover tax was made by Senator Smoot. It was introduced in 1921 as an amendment (S.B. 202) to the House Revenue Bill and provided for a 1% commodity transfer tax on all sales or leases of "goods, wares and merchandize" over an annual turnover of \$6,000. It had originally been intended to exempt sales of farm produce, but upon representation that most farm sales would come under the \$6,000 exemption, this provision was dropped. The bill as presented to the Senate exempted sales by the Federal Government, by foreign governments and by the states and their subdivisions, as well as sales by hospitals, by religious, charitable and educational institutions, and export sales. Estimates on the annual yield of this proposed tax varied widely; that of Mr. Joseph S. McCoy, the government actuary, was \$1,100 millions.

Sentiment against the bill was evident in the Senate discussions,³ and later in the session Senator Smoot offered an amendment to his earlier bill, changing its character to that of a modified production tax. This amendment provided a 3% tax on consumption sales by manufacturers and producers, accompanied by a counterbalancing 3% import duty on consumption goods. The bill itself did not cover goods sold by a manufacturer to another manufacturer for further working, but it was anticipated that the Treasury regulations would provide for exemption of sales when the purchaser gave assurance of further productive activity upon the purchased goods, making the purchasing manufacturer liable for the tax on

Suggestions on Tax Revision," "Addendum to Some Suggestions on Tax Revision and the Sales Tax," and "Two Years of Faulty Taxation and the Sales Tax," 1920; Charles E. Lord, "The Farmer and the Sales Tax," *Forum*, 1920, pp. 699-708; National Industrial Conference Board, "National Industrial Tax Conference," and "Second National Industrial Tax Conference," 1920; National Tax Association, "Proceedings of Thirteenth National Conference," 1920, pp. 169-219; Meyer D. Rothschild, "Gross Sales or Turnover Tax," New York, 1920; Robert R. Reece, "A Review and Discussion of the Opposition to a Commodity Sales Tax," New York, 1921; Hugh Satterlee, "Sales Taxes," New York, 1921; Otto Kahn, "A Plea for Prosperity," New York, 1922; Edwin R. A. Seligman, "The Sales Tax," in "Studies in Public Finance," New York, 1925.

¹ 67th Congress, 1st Session, Senate Finance Committee, "Hearings on the Revenue Act of 1921," pp. 21-496.

² Congressional Record, 66th Congress, 3rd Session, pp. 2328-2340.

³ *Ibid.*, 67th Congress, 1st Session, pp. 692, 5890, 6211, 7232, 7250, 7294, 7504.

the finished product. The same exemptions were allowed as in the earlier bill. The estimated yield of this tax was \$759 millions.

Still later in the session, the second Smoot amendment was reintroduced in a modified form, providing for a 1% tax on consumption sales by manufacturers and producers, with a 1% compensating import duty. The estimated annual yield of this tax was \$253 millions. In the debate on this last amendment, an interesting reversal of theory occurred. The two earlier turnover taxes had been proposed as consumption taxes; it had been argued that they could not become a burden on industry since they would invariably be shifted. The opposition seized upon this feature of the proposals and emphasized the characteristic of such consumption taxes of burdening the poor more heavily than the rich. In defending his third proposal, Senator Smoot argued that it was intended to be a tax on industry and not on the consumer, and that because of its low rate it would not be shifted.¹

The vote on the Smoot proposal for a production tax was taken on November 3, 1921. The proposal was defeated, 43 to 25, by a combination of agrarian Republicans such as LaFollette, Lenroot, Borah and Capper, and a few administration Republicans such as Penrose and McCormick, with the solid Democratic vote.² The following day the Smoot proposal for a 0.5% commodity transfer tax, with a hastily added amendment allowing credits to merchants and manufacturers for the amount of sales tax included in the prices of commodities purchased by them (which would have completely revolutionized the character of the tax, making it a net value transfer tax, and would have cut its revenue production to less than one-third of the original proposal, although neither the sponsor of the amendment nor the senators voting on it seemed to realize this), was voted down, 46 to 25.³ A third and final proposal for a 3% production tax failed on a *vide voce* vote three days later.⁴

Controversy over Proposed Federal Turnover Taxes

The motivation for the federal turnover tax proposals that originated from 1918 through 1921 was the desire in many quarters to abolish the excess profits tax and to abolish or at least to modify the surtax on individual incomes; it was also felt that a federal turnover tax would give an opportunity for eliminating the federal system of special wartime excises and sales taxes on luxuries and semi-luxuries. The proposed turnover taxes were viewed not as an addition to the existing federal internal revenue system but as a substitute for parts of it. Under the circumstances, it was natural that the proposals for federal sales and turnover taxes were not considered and discussed solely on their own merits; the opinions which individuals and groups in the country held on the subject were colored by their attitude toward the taxes for which it was proposed to substitute these general sales or turnover taxes.

In a broad way, it may be said that the business elements of the country favored the substitution of a turnover tax for the excess profits and other

← ¹ *Ibid.*, p. 7244. ² *Ibid.*, pp. 7254-7255. ³ *Ibid.*, p. 7298. ⁴ *Ibid.*, p. 7506.

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taxes from 1918 through 1921. In the fall of 1919, Harris Winthrop & Company, a banking firm, distributed a questionnaire among their clients, inviting opinions on the issue. Of 1,979 replies, 1,173 favored a federal turnover tax and 806 were opposed.¹ The strongest approval of the tax came from New England, and the opposition to the proposal was greatest in the southern and southwestern states. A second referendum on the question of a federal turnover tax, taken a year later by the same firm, showed 2,621 replies out of 3,573 favorable to the proposal.² A referendum (No. 34) held by the Chamber of Commerce of the United States in the winter of 1920 showed from 70% to 84%³ of its membership in favor of a turnover tax. The proponents of a federal turnover tax who testified at the hearings of the Senate Turnover Committee constituted a representative cross-section of opinion favorable to the tax. Among these were a prominent dry goods merchant, a representative of the Philadelphia Manufacturers' Club, a representative of the National Association of Real Estate Boards, a representative of the National Association of Manufacturers, a representative of the Boston Chamber of Commerce, a representative of the National Retail Dry Goods Association, and several representatives of the jewelers of the country.

The agricultural and labor elements of the country, the public utility interests and several prominent economists opposed the proposal of a federal turnover tax. These groups were not as active as the proponents of the tax in publishing their opinions in articles or pamphlets, but they presented their case at length before the Senate Finance Committee in 1921. They placed emphasis on the heavy tax burden that would be placed upon the poorer elements of the country by substituting a turnover tax for the excess profits or the luxury and semi-luxury taxes. They made much of the point that the tax would discriminate against special or single-process enterprises competing with multiple-process concerns, and they laid emphasis on the administrative difficulties of the tax.

The failure of the Smoot amendments to obtain congressional support was generally accepted by both proponents and opponents of the measure as closing the issue, and the controversy quickly subsided.

THE WEST VIRGINIA TURNOVER TAX

The state government of West Virginia in 1921 found itself faced by rapidly increasing expenditures and an insufficiency of revenue from existing sources. Opinion was fairly unanimous that the extractive industries of the state—coal mining and natural gas and oil production—should contribute more to the support of the state government than in the past, but apart from this, there was little agreement as to where further additional revenue should come from. During the closing days of the 1921 session of

¹ Harris Winthrop & Company, "Cross Section."

² *Ibid.*, "Composite Picture."

³ The form of the questions did not permit an exact ascertainment of the opinions concerned in the replies.

the legislature, a bill providing for a gross sales tax on all sales—industrial, commercial and casual—as well as on extractive production, was pressed through the legislature with little consideration, and enacted into law;¹ this turnover tax replaced an existing 0.75% corporation net income tax, which in 1920-1921, the last year of its operation, had produced \$1,332,000.

The Gross Sales Tax Law of 1921

The 1921 West Virginia tax applied to the total of business transactions of corporations and private business concerns and also to incidental transactions by individuals (although the latter application was largely inoperative in view of the large minimum exemption). The basis of the tax was "gross receipts," which included, in addition to income from sales, the income from services, discounts, interest, rentals, dividends and all other receipts, without allowance of deductions for losses or any expenses. An annual minimum exemption of \$10,000 was allowed, and national banks, insurance companies (separately taxed), mutual savings banks and non-profit educational, religious and charitable organizations were exempted on their sales or services. For constitutional reasons the law also exempted sales of articles for continuous transportation and delivery outside of West Virginia and the sales of imported articles sold in their original unbroken packages.

The rates of the 1921 law were: 0.4% of the gross sales value of extracted products—coal, oil, natural gas, limestone, sand or other mineral products; 0.2% of the gross proceeds of sales of tangible property except wholesale sales by jobbers or producers, and of the gross income of banks, railroads public utilities and other businesses and professions; 0.333% of the excess of the gross proceeds of sales by wholesalers and jobbers over and above the purchase price of the goods so sold. This discrimination between the rates applied to the various lines of productive and mercantile activity was intended to offset the differing ratios of net profits to turnover of the various types of concerns and so approximate the burden of the gross sales tax to that of a net profits tax.

In the case of concerns with a gross annual turnover in excess of \$60,000, returns had to be made, and the tax paid, quarterly; when the turnover was less than \$60,000, annual returns and tax payments were permitted.

The Business Occupation Tax Law of 1925

Several measures were introduced into the 1923 legislature to amend the Gross Sales Tax law of 1921. The tenor of these bills indicated a desire for heavier rates on the extractive industries and hostility to the principle of the turnover tax as applied to other industries and activities. One bill (H.B. 149), increasing the rates on the extractive industries and substituting a net profits tax on other business enterprises, was passed by the House of Delegates but failed in the Senate.²

¹ National Industrial Conference Board, "The Tax Problem in West Virginia," New York, 1925, pp. 152-159.

² *Ibid.*, p. 160.

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Bills of a similar character (S.B. 155, H.B. 198, H.B. 417) were introduced during the regular 1925 session of the legislature, but though one (H.B. 417) received favorable consideration by the House Committee on Finance, enactment into law did not follow. Amendment of the Gross Sales Tax law was postponed until the 1925 special session of the legislature.

Chapter I of the Special Session Statutes of 1925 created a "Business Occupation Tax" which was, in effect, a modification of the earlier Gross Sales Tax. This law gave a new definition of "gross income" and provided a new, higher and more complicated schedule of rates, but otherwise maintained the principle of the Gross Sales Tax law of 1921. The definition of "gross income" given by the 1925 statute is significant—"the value proceeding or accruing from the sale of tangible property (real or personal) or service, or both, and all receipts, actual or accrued, by reason of the investment of the capital of the business engaged in, including interest, discount, rentals, royalties, fees, or other emoluments however designated and without any deduction on account of the costs, interest or discount paid, or any other expense whatsoever; and without any deduction on account of losses." The tax accrues as of the date of closing the contract of sale, irrespective of the time of delivery or the time of payment. The West Virginia tax is thus a turnover tax of the broadest form possible, covering sales of land by realty firms and certain types of services, as well as the sales of commodities, and even including items of dividends and interest received, which are not within the scope of a general turnover or gross sales tax. A very significant item is the provision vesting authority in the Tax Commissioner "to make equitable and uniform rates for ascertaining in the case of production without sale, and in the case of sales to affiliated companies or persons where the receipts are not indicative of the true value of the subject of sales."

An examination by the Tax Commissioner of the comparative burden of the old corporation income tax as levied in 1919 and 1920 and of the Gross Sales Tax as levied in 1922 indicated that the rate schedule of the latter

TABLE 14: RELATIVE INCREASES OF TAX BURDENS ON TYPES OF BUSINESS ENTERPRISE IMPOSED BY THE WEST VIRGINIA 1921 GROSS SALES TAX

(Source: Supplementary Report of the State Tax Commissioner, 1923, p. 10)

Business of Reporting Concerns	Number of Companies Reporting	Gross Sales Tax on Companies Reporting, 1922	Net Income Excise on Companies Reporting, 1919 and 1920	Per Cent Increase of Tax Burdens
Production (extraction).....	311	\$1,461,506	\$661,720	121
Manufacturing.....	309	620,320	263,896	135
Sales, except wholesale.....	309	164,932	40,243	260
Wholesale sales.....	132	55,070	31,065	77
Banks and public utilities.....	117	141,604	92,927	52
Other businesses and professions.....	235	52,722	36,285	45

did not maintain the equilibrium of tax burden between the various lines of productive and economic activity which had been imposed by the earlier net income tax. As shown in Table 14, the burden of the Gross Sales Tax on concerns selling at retail was 260% greater than the burden of the former excise on net incomes. In the case of manufacturing concerns the increase was 135%. The increase for miscellaneous business and professions was only 45%. The Gross Sales Tax imposed only an additional 52% tax burden on banks and public utilities.

With a view to remedying these discriminations of the Gross Sales Tax, the schedule of rates was revised. An additional yield, \$4.3 millions as against the \$2.5 millions to \$3 millions of the Gross Sales Tax, was required from the new Business Occupation Tax. Consequently, the revision of the rate schedule took the form of marked increases of the rates on those lines that had had their tax burdens increased least by the 1921 Gross Sales Tax; the rates on those types of concerns that had been subjected to the heaviest increases under the 1921 tax were increased either slightly or not at all. Amusement places were taxed 1% on their gross incomes as a concession to the feeling that their incomes represented a luxury, or at least a sumptuary expenditure, on the part of their patrons. The schedule of rates is presented in Table 15.

**TABLE 15: RATE SCHEDULE OF THE WEST VIRGINIA
BUSINESS OCCUPATION TAX OF 1925**

General Class of Taxed Concerns	Specific Business Activity of Taxed Concerns	Rate of Tax
Extractive industries	Coal mining.....	0.42%
	Oil production.....	1.00
	Natural gas production.....	1.85
	Extraction of limestone, sand or other mineral products.....	0.45
	Lumbering.....	0.45
	Manufacturing	Manufacturers' sales.....	0.21
Merchandizing	Sales of tangible property other than by wholesalers or jobbers.....	0.20
	Wholesalers' and jobbers' sales.....	0.05
Banks and public service enterprises	Banks.....	0.3
	Steam railroads.....	1.0
	Street railways.....	0.4
	Pipe line companies.....	1.0
	Telephone and telegraph, express, light and power companies.....	0.6
	Other public service companies.....	0.4
Contractors	Gross income of contractors.....	0.3
Amusements	Gross income from places of amusement.....	1.0
Residuary	All other business activities.....	0.3

TABLE 16: RECEIPTS FROM THE WEST VIRGINIA TURNOVER TAXES, BY INDUSTRIES, FISCAL YEARS 1922 TO 1928

(Source: Biennial Reports, State Tax Commission)

Business Classification	October, 1921 to June, 1922	July, 1922 to June, 1923	July, 1923 to June, 1924	July, 1924 to June, 1925	July, 1925 to June, 1926	July, 1926 to June, 1927	July, 1927 to June, 1928
<i>Amount (in thousands)</i>							
Coal production.....	\$516.8	\$1,084.5	\$1,093.8	\$731.8	\$969.7	\$1,182.7	\$1,022.0
Oil and gas production.....	150.6	231.7	221.6	199.8	152.3	705.5	615.5
Clay, sand, etc., production.....	13.1	18.0	24.2	25.0	29.3	31.9	30.2
Timber production.....	..	..	..	..	5.4	25.3	30.2
Total production.....	\$680.5	\$1,334.2	\$1,339.6	\$956.6	\$1,156.7	\$1,945.4	\$1,697.9
Manufacturing.....	339.4	656.9	780.0	725.9	842.1	791.2	788.3
Sales, exclusive of wholesale ¹	269.6	442.2	586.8	539.3	555.4	580.1	562.2
Sales, wholesale.....	31.4	52.4	61.9	56.3	71.7	88.9	85.9
Banks and public utilities.....	68.3	101.9	115.3	105.1	298.0	402.5	399.3
Other businesses and professions ²	73.2	120.8	172.4	167.9	235.3	268.0	272.4
Total.....	\$1,462.4	\$2,708.4	\$3,056.0	\$2,551.1	\$3,159.2	\$4,076.1	\$3,806.0
Total state tax revenue³.....	\$7,200.0	\$11,493.0	\$13,030.0	\$13,899.0	\$15,532.0	\$17,135.0	\$18,619.5
Combined state and local tax revenue⁴.....	\$31,721.0	\$49,927.0	\$56,305.0	\$58,380.0	\$62,309.0	\$64,913.0	..

Percentage Distribution

Coal production	35.3	40.0	35.8	28.7	30.7	29.0	26.8
Oil and gas production	10.3	8.6	7.2	7.8	4.8	17.3	16.2
Clay, sand, etc., production	0.9	0.7	0.8	1.0	1.0	0.8	0.8
Timber production . . . . .	..	..	..	..	0.2	0.6	0.8
Total production	46.5	49.3	43.8	37.5	36.7	47.7	44.6
Manufacturing	23.2	24.2	25.6	28.5	26.7	19.4	20.7
Sales, exclusive of wholesale ¹	18.4	16.3	19.2	21.1	17.6	14.2	14.8
Sales, wholesale	2.2	1.9	2.0	2.2	2.2	2.2	2.2
Banks and other public utilities	4.7	3.8	3.8	4.1	9.4	9.9	10.5
Other businesses and professions ²	5.0	4.5	5.6	6.6	7.4	6.6	7.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Ratio of gross sales tax receipts to total state tax revenue	20.3	23.6	23.5	18.4	20.3	23.8	20.4
Ratio of gross sales tax receipts to combined state and local tax revenue	4.6	5.4	5.4	4.4	5.1	6.3	..

¹ Casual sales not taxed after 1924-1925.

² Professions not taxed after 1924-1925.

³ U. S. Bureau of the Census, "Financial Statistics of States" series.

⁴ National Industrial Conference Board, "Cost of Government in the United States" series.

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The list of exemptions remained unchanged, but the scope of the tax was narrowed so as no longer to include professional services. Sales of real or personal property, not carried on as a business, were also excluded from the Business Occupation Tax. A number of administrative changes were made. Among these were the provision for annual instead of quarterly payments when the tax on a concern is less than \$100, and the reduction of the fine for fraud or evasion from \$5,000 to \$1,000.

The business interests of West Virginia are far from satisfied with the Business Corporation Tax in its present form,¹ but no changes have been made in the 1925 law.

Yield of the West Virginia Turnover Taxes

From its earliest application, the West Virginia turnover tax proved a better revenue producer than its predecessor, the corporation net income excise. As shown in Table 16, from 1921-1922 to 1923-1924 over one-third of this revenue was paid by the coal companies of the state. Manufacturing companies paid nearly a fourth of the total.

The most noticeable changes in the distribution of revenue receipts resulting from the substitution of the Business Occupation Tax for the Gross Sales Tax were sharp increases in the revenue from banking and public utility corporations, from unclassified business concerns, and from extractive production. The tax burdens on manufacturers, wholesalers and retailers remained practically unchanged.

The annual revenue of the Gross Sales Tax, under the rates of the 1921 law, varied between \$2.5 millions and \$3 millions. This represented over one-fifth of the state government's revenue, and from 4.5% to 5.5% of the combined state and local tax revenue of West Virginia.

Far from producing an additional one to one-and-a-half millions of tax revenue, as had been anticipated, the Business Occupation Tax of 1925 resulted in a bare \$600,000 increase during the first year of operation. In fact, the revenue from this tax during the fiscal year 1925-1926 was only \$100,000 in excess of the yield of the Gross Sales Tax in 1923-1924, the latter's best year. During the fiscal year 1926-1927, however, the Business Occupation Tax measured up to its revenue expectations, and produced \$4,076.1 millions of revenue, which represented 23.8% of West Virginia's state tax revenue for the year and 6.3% of the combined state and local tax revenue. The yield of the Business Occupation Tax in the fiscal year 1927-1928 fell off considerably from the high figure of the preceding year.

OTHER STATE TURNOVER TAXES

Of the American states, only West Virginia levies a general sales or turnover tax applying to all transactions or all business done within the state. Four other states, Pennsylvania, Connecticut, Delaware and Missouri, provide for the taxation of certain classes or groups of manufacturing

¹ J. E. Brunson, "Operation of Sales Tax in West Virginia," Greenville, S. C., 1928.

or mercantile enterprise on a gross income basis, either by the state itself or by local governments; these state gross income taxes are allied to turnover taxation and deserve consideration as aspects of turnover taxation.

Of the dependencies of the United States, the Philippine Islands and Porto Rico levy turnover taxes of the commodity transfer type.

The Pennsylvania Mercantile License Tax

The Pennsylvania Mercantile License Tax, although levied as a license tax on wholesale and retail merchants only, and excluding sales by manufacturers and agriculturalists of their own products, has some of the characteristics of a general sales or turnover tax.¹ It was first levied in 1821 (P.L. 244) to apply only to dealers in foreign wares. In 1841 (P.L. 307) it was extended to all dealers. Its re-enactment and codification in 1899 (P.L. 184) is the basis of the present tax.

The Mercantile License Tax is imposed on individuals, firms, corporations and all other vendors of goods, wares and merchandise. The law provides three rates: a \$2.00 annual license charge plus a 0.1% tax on "the whole volume, gross, of business transacted annually" of retailers; a \$5.00 annual license charge plus a 0.05% tax on the turnover of wholesalers; and a 0.025% tax on exchange sales. The tax is collected on the basis of self-assessments checked by a corps of local "mercantile appraisers."

The tax has been a fruitful source of revenue to the state government, as is shown in Table 17. Its yield increased from \$1.2 millions in 1915 to \$3.8 millions in 1926-1927. In the latter year it represented 3.6% of the state government's tax revenue, and 0.9% of Pennsylvania's combined state and local tax revenue. Its cost of administration is excessively high, though of recent years it has shown a tendency to decrease. It was 11.3% in 1915, 9.7% in 1919, 8% in 1923, and has averaged 7.8% in recent years.² The determination of liability to the tax in borderline cases has resulted in much judicial controversy. For at least two decades there has been a strong, though probably not a majority, current of disapproval of the mercantile license tax.³

The Connecticut Merchants' and Manufacturers' Tax

In 1921 (ch. 393), Connecticut levied a privilege tax on unincorporated manufacturing and mercantile concerns. The measure of the tax was the gross income or turnover of the taxed concerns attributable to Connecticut business (determined by the proportion of each taxed firm's real and tangible personal property located within the state). The rates were 0.1% on the

¹ Fox, "Taxation for State Purposes in Pennsylvania," pp. 103-110.

² *Ibid.*, p. 109, and letter from Pennsylvania Auditor General dated April 16, 1929.

³ Report of the Pennsylvania Joint Committee upon Revision of the Corporation and Revenue Laws, 1909-1911, pp. 167-168; Report of the Committee on Taxation Study to the Council of the City of Pittsburgh, 1916, pp. 81-82; Brief of Allied Business Men's League of Pennsylvania to Governor Sproul, *Philadelphia Public Ledger*, April 20, 1921.

TABLE 17: RECEIPTS FROM THE PENNSYLVANIA MERCANTILE LICENSE TAX, FISCAL YEARS 1915 TO 1928
(Source: Reports of the State Auditor General)

Tax	December, 1914 to November, 1915	December, 1915 to November, 1916	December, 1916 to November, 1917	December, 1917 to November, 1918	December, 1918 to November, 1919	December, 1919 to November, 1920	June, 1921 to May, 1922	June, 1922 to May, 1923	June, 1923 to May, 1924	June, 1924 to May, 1925	June, 1925 to May, 1926	June, 1926 to May, 1927	June, 1927 to May, 1928
<i>Amount (in thousands)</i>													
Tax on retail sales	\$909	\$951	\$1,054	\$1,258	\$1,548	\$1,198	\$2,323	\$2,600	\$2,212	\$2,743	\$2,730	\$2,924	\$3,280
Tax on wholesale sales	340	349	427	557	651	817	779	825	730	839	814	850	989
Total mercantile license tax	\$1,249	\$1,300	\$1,481	\$1,815	\$2,199	\$2,015	\$3,102	\$3,425	\$2,942	\$3,582	\$3,544	\$3,774	\$4,269
Total state tax revenue¹	30,438	35,039	29,911	41,858	..	..	67,189	76,580	87,530	91,336	99,823	105,678	120,850
Total state and local tax revenue² . . . . .	..	..	..	..	..	..	300,082	324,816	352,359	378,501	410,711	439,046	..
<i>Per Cent</i>													
Proportion of mercantile license tax to:													
Total state tax revenue	4.1	3.7	5.0	4.3	..	..	4.6	4.5	3.4	3.9	3.6	3.6	3.5
Total state and local tax revenue . . . . .	..	..	..	..	..	..	1.0	1.1	0.8	0.9	0.9	0.9	..

¹ U. S. Bureau of the Census, "Financial Statistics of States" series.

² National Industrial Conference Board, "Cost of Government in the United States" series.

gross income from manufacturing and retail merchandizing and 0.025% on the gross income from wholesale merchandizing, with a \$5 minimum tax. In case a firm suffered a net loss for the year, it paid only the minimum tax.

The Connecticut merchants' and manufacturers' tax is often referred to as a general sales or turnover tax. Its limited scope and the provision for payment of a minimum tax in cases of net loss might properly exclude it from this category of taxes. These provisions, however, deserve consideration as a modification or variation of the general principle of turnover taxation. The annual yield of the tax is between \$500,000 and \$600,000.

The Delaware Merchants' and Manufacturers' License Taxes

Non-incorporated merchants and manufacturers in Delaware, other than wholesale merchants, pay 0.1% on their gross income. Wholesale merchants pay 0.025% on their gross income.

The administration of the tax is lax. The taxpayers merely report to the county clerk of the peace that their gross income does not exceed a certain figure, and pay a tax on that figure. Probably only the lightness of the rates has preserved the tax. The tax collected from wholesale and retail merchants amounts to about \$85,000 annually and that from manufacturers to about \$25,000 annually.

The Missouri Local Turnover Taxes

As permitted by state law (Mo. Rev. Stat., 1909, No. 9857), the city of St. Louis levies a 0.1% tax on the turnover of manufacturers and merchants. The tax on manufacturers is measured by their total output, irrespective of its destination; that on merchants is measured by their domestic sales. A similar local turnover tax is levied in Kansas City.

The Philippine Islands Commodity Transfer Tax

The Philippine Revenue Law of 1904 (Act 1189, Art. XVI) imposed a 0.333% tax on "the gross value of all goods, wares and merchandize sold, bartered or exchanged for domestic consumption." The act specifically included the services of telephone and telegraph companies, light, heat and power plants, and boat construction and dockyard companies; common carriers were subjected to a 1% rate. Sales of commodities taxed under the liquor, tobacco and other special excises were exempted from the commodity transfer tax. So, also, were sales by agriculturalists of their own produce, sales by butchers, bakers and merchants in the retail markets, export sales, and sales of animals under 500 pesos.

In 1915 (Act 2432), the rate of the tax was raised to 1%, but no change was made in its structure. In 1923 (Act 3065), an additional 0.5% was temporarily added to the existing 1% rate. This temporary increase was continued in 1924 (Act 3183) and made permanent in 1925 (Act 3243).

The administration of the Philippine tax is an interesting example of simplicity and effectiveness adapted to the circumstances. Each taxpayer is provided with an annual license form with four coupons attached. At

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the end of each quarter, the total of sales and the amount of tax due is noted on the appropriate coupon, which is sent with the remittance of the tax to the tax collector. Serially numbered stamps covering the amount of the tax paid are then sent to the taxpayer. These are attached to the license form, which must be kept on display.

The Porto Rican Turnover Taxes

In 1925 (No. 74, Title III), the Porto Rican Assembly enacted a 2% tax on the sales of all commodities not already taxed under the system of excises. The scope of this commodity transfer tax was limited, however, since many of the most important articles were covered by the excise system; in addition to alcoholic drinks and tobacco products, this group included sugar, musical instruments, motors and motor accessories, cameras and photographic accessories, typewriters, comptometers and cash registers, lighting apparatus, and other specific items. In addition, foodstuffs, gas, electricity, fuel, newspapers and books and (by error) jewels were exempt. A minimum turnover exemption of \$100 per month was allowed. The tax was paid by affixing stamps to the return forms.

In 1927 (No. 17), the exemption of jewelry was dropped and sales of real property, presumably non-taxable under the 1925 law, were specifically exempted. Moreover, it was provided that the taxation of the sale of any specific article exempted all future transfers of that article; this provision gave the tax the character of a production tax.