THE RETAIL SALES TAX

Tax talk has been in the public eye a great deal lately. This leads The Sentinel to present some of the pros and cons of the retail sales tax.

At present, 32 states have a retail sales tax, with Nevada soon to be included. In 1953-54, these 32 states collected a combined $2,235,956,000 in retail sales taxes, $1,004,448,000 in personal income taxes, and $771,527,000 in corporation income taxes. As a producer of states revenues, the retail sales tax outranks motor fuels, motor vehicle, personal income and corporate excise taxes.

Main Objection

A main objection to the retail sales tax is its conflict with the theory of "ability to pay" or the increase of taxpaying capacity at a faster rate than increase in income. However, in terms of standards such as convenience, certainty, fiscal adequacy, and administration, the retail sales tax nears and, in many instances, surpasses the level of efficiency attainable from any other tax.

Some argue the income tax is better because it takes the most from those people most able to pay; thus it is a progressive tax. Others argue the retail sales tax is bad because percentagewise on total income it is heavier at the opposite (lower) end of the income level if food for humans is included.

Tax Journal Report

This backward (regressive) and forward (progressive) movement of the two types of taxes in relation to income level is illustrated in a table from the June 1951 issue of the National Tax Journal. The table has been adjusted to reflect a three percent rate and to include the Oregon personal income tax; the sales tax is computed on budget figures of the Haynes Foundation (California) for a family of four at the selected incomes.

TAX AS A PERCENTAGE OF TOTAL INCOME

Income Level	Oregon Personal Income Tax	3% Retail Sales Tax Including Food for Home Consumption	3% Retail Sales Tax Excluding Food for Home Consumption
$ 1,935	.00	1.96	.50
4,041	.64	1.71	.72
4.387	.78	1.61	.72
5,433	1.12	1.55	.85
12,406	2.61	1.28	.90

Thus, the Oregon income tax is four times as much as the top income level as at the $4,041 level; the sales tax climbs mildly if it does not include food but is higher at the lowest income level if it does include food. (This is what retail sales tax opponents mean when they say such a tax is regressive and therefore not good.)

Effect on Lower Incomes

The family with $1,935 would have to pay $9.67 if food is not taxed or $37.97 if taxed. But it would pay no state income tax in Oregon. Oregon's Public Welfare Commission standards may be cited to show the relative position of this income level. For the family of four, a reasonable budget under the Aid to Dependent Children (ADC) program is $2,280 per year; for General Assistance, about $150 lower. Obviously both are near minimum subsistence level —but for those on welfare taxes added to the price of goods could be offset by increased grants. Not so with self-sufficient families at this income level; their minimum subsistence income would be cut and the impact on their basic needs would be serious.

Convenient and Certain

What about other standards in a taxing program? The sales tax easily meets those of certainty and convenience. Withholding and quarterly instalments have taken some of the edge off personal income tax payments, but for some it is still inconvenient to pay out fairly large sums. Under a sales tax, smaller amounts are paid out upon purchase. On large purchases, the tax may become a part of the instalment buying.

No tax is more certain of collection than a retail sales tax. It must be paid when the goods are sold; the credit merchant must pay the tax regardless of whether the buyer meets his bill. In Oregon, the Tax Commission would deal with about 40,000 taxpayers under a sales tax compared with 575,000 returns it handles annually under the personal income and corporation excise tax acts. Greater attention could be paid to individual accounts.

Fiscal Adequacy

Another frequent criterion of a tax is fiscal adequacy—can it be depended on to produce the revenues needed when needed? How will it react to the different phases of the business cycle? A study made several years ago and published in the March 1952 issue of the **American Economic Review** found retail sales taxes to be less sensitive to changes in state income payments to individuals than personal income taxes.

Stability is generally considered a virtue in state and local finance since costs of materials and personal services will decline on the downswing of the business cycle, but expenses for welfare and public works will increase. The opposite will be true when the business cycle reverses direction.

Safety Valve Page

Departing from the area of academic reference material to the "Letters-To-The-Editor" page is interesting. Again it is found that opponents concentrated their objections on the premise that a retail sales tax is based upon consumption rather than ability to pay. The previously listed table illustrates this point.

Proponents penned the following ideas not elsewhere noted in this article:

(1) A sales tax results in the immediate sharing of costs. It catches transients, tourists, and new state citizens who benefit from our protection, schools, and welfare but who seldom pay their share of these costs. Many people pay no direct tax.

(2) Income taxes sometimes are avaded and "rigged" by the "smart operators" and those able to buy advice, thus adding extra burdens on the less "wise" citizen.

This article is submitted in the public interest with the hope that it will assist you to determine whether the end justifies the means as it relates to the retail sales tax.

A THOUGHT FOR US ALL!

Cheer up! You're needed in the world's work as long as there is something you can do better than anyone else.

For instance, you may be the only one who can read your writing.