





# PUBLIC ROADS

A JOURNAL OF HIGHWAY RESEARCH

FEDERAL WORKS AGENCY  
PUBLIC ROADS ADMINISTRATION

VOL. 22, NO. 7



SEPTEMBER 1941



ON US 85 IN WYOMING

---

---

# PUBLIC ROADS

▶▶▶ *A Journal of  
Highway Research*

*issued by the*

FEDERAL WORKS AGENCY  
PUBLIC ROADS ADMINISTRATION

D. M. BEACH, *Editor*

Volume 22, No. 7

September 1941

*The reports of research published in this magazine are necessarily qualified by the conditions of the tests from which the data are obtained. Whenever it is deemed possible to do so, generalizations are drawn from the results of the tests; and, unless this is done, the conclusions formulated must be considered as specifically pertinent only to described conditions.*

## *In This Issue*

	Page
Sales Taxes Affecting Motor-Vehicle Operation . . . . .	147

THE PUBLIC ROADS ADMINISTRATION - - - - - Willard Building, Washington, D. C.  
REGIONAL HEADQUARTERS - - - - - Federal Building, Civic Center, San Francisco, Calif.

▼

### DISTRICT OFFICES

- |  |   |
|--|---|
| DISTRICT No. 1. Oregon, Washington, and Montana.<br>Post Office Building, Portland, Oreg.                                | DISTRICT No. 8. Alabama, Georgia, Florida, Mississippi, and Tennessee.<br>Post Office Building, Montgomery, Ala.                                  |
| DISTRICT No. 2. California, Arizona, and Nevada.<br>Federal Building, Civic Center, San Francisco, Calif.                | DISTRICT No. 9. Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont.<br>76 State St., Albany, N. Y. |
| DISTRICT No. 3. Colorado, New Mexico, and Wyoming.<br>254 New Customhouse, Denver, Colo.                                 | DISTRICT No. 10. Delaware, Maryland, Ohio, Pennsylvania, and District of Columbia.<br>Willard Building, Washington, D. C.                         |
| DISTRICT No. 4. Minnesota, North Dakota, South Dakota, and Wisconsin.<br>1109 Main Post Office Building, St. Paul, Minn. | DISTRICT No. 11. Alaska.<br>Room 419, Federal and Territorial Building, Juneau, Alaska.   |
| DISTRICT No. 5. Iowa, Kansas, Missouri, and Nebraska.<br>729 U. S. Courthouse, Kansas City, Mo.                          | DISTRICT No. 12. Idaho and Utah.<br>Federal Building, Ogden, Utah.  |
| DISTRICT No. 6. Arkansas, Louisiana, Oklahoma, and Texas.<br>Room 502, United States Courthouse, Fort Worth, Tex.        | DISTRICT No. 14. North Carolina, South Carolina, Virginia, and West Virginia.<br>Montgomery Building, Spartanburg, S. C.                          |
| DISTRICT No. 7. Illinois, Indiana, Kentucky, and Michigan.<br>South Chicago Post Office Building, Chicago, Ill.          |   |

---

Because of the necessarily limited edition of this publication it is impossible to distribute it free to any person or institution other than State and county officials actually engaged in planning or constructing public highways, instructors in highway engineering, and periodicals upon an exchange basis. At the present time additions to the free mailing list can be made only as vacancies occur. Those desiring to obtain PUBLIC ROADS can do so by sending \$1 per year (foreign subscription \$1.50), or 10 cents per single copy, to the Superintendent of Documents, United States Government Printing Office, Washington, D. C.

# SALES TAXES AFFECTING MOTOR-VEHICLE OPERATION

## AN ANALYSIS OF GENERAL SALES TAX REVENUES RESULTING FROM MOTOR-VEHICLE OPERATION

BY THE DIVISION OF CONTROL, PUBLIC ROADS ADMINISTRATION

Reported by WILLIAM L. HAAS, Assistant Transportation Economist

SEVERAL KINDS of taxes are imposed on the ownership and operation of motor vehicles, the most productive being taxes on motor fuel and the fees and licenses levied annually on motor vehicles. These taxes, commonly known as highway-user taxes, have been imposed directly upon motor-vehicle owners for many years.

A special study of the extent of such taxes in 1932, made by the Public Roads Administration,<sup>1</sup> indicated that more than one billion dollars was collected in that year from State, county, and local highway-user fees and taxes, personal property taxes, Federal excise taxes, and public bridge and ferry tolls.

Data collected annually by the Public Roads Administration indicate that the receipts from such taxes have increased so that the State motor-vehicle and motor-fuel taxes alone yielded approximately \$1,250,000,000 in 1939. At the time of the special study in 1932 the general sales tax was but little used in the United States and yielded only a small amount of revenue. The effect of such taxation on motor-vehicle operation in 1932 was too small to warrant its inclusion in the special study. The study reported herein was, therefore, undertaken to supplement the special 1932 study of other taxes affecting motor-vehicle operation and the subsequent statistical summaries of such other taxes that have been made and reported each year since 1932.

The general sales tax, evidently a product of the depression, has grown rapidly in importance since 1932 so that its relation to motor-vehicle operation can no longer be ignored in any analysis of the total extent of taxes affecting motor-vehicle ownership and operation.

From 1932 through 1939, approximately \$357,443,000 was contributed by motor-vehicle owners through sales taxes affecting motor-vehicle operation. This

Motor-vehicle owners and operators contributed approximately \$357,443,000 from 1932 to 1939 in the form of sales taxes affecting motor-vehicle operation. All but a very small part of this was directed to the general support of State governments and was not used for highway purposes. This amount was in addition to the regular highway-user tax contributions by motor-vehicle owners.

Collections from the various types of sales or excise taxes levied by the several States were very small in 1932, but increased rapidly in succeeding years. Although only 2 States levied sales taxes in 1932, 22 States were levying such taxes in 1939. In addition Kentucky and Maryland levied excise taxes specifically on motor vehicles.

Sales or excise taxes on new or used vehicles accounted for 64.5 percent of the total sales taxes levied on motor vehicles and allied automotive sales from 1932 to 1939. The next largest item was accounted for by the operations of filling service stations, parking lots, and auto hotels, whose contribution was 17.7 percent of the total. Garages and repair shops contributed 6.2 percent of the total while the sales of accessories, tires, batteries, and parts accounted for 5.7 percent.

Contributions of sales and excise taxes in 1938 averaged \$4.40 per vehicle in the 24 States in which such taxes were levied. In the same 24 States the average highway-user taxes per vehicle were \$35.22.

Sales taxes have not been initiated in recent years by any additional States but the increase in receipts from these taxes on motor-vehicle owners has been occasioned by the increase in motor-vehicle ownership, the increase in general price levels, and improved economic conditions.

amount constituted 17.2 percent of the total of approximately \$2,077,836,000 which was collected in general sales taxes, use or compensating taxes, and motor-vehicle excises in the States that levied such taxes during that period. The contribution by motor-vehicle owners, essentially all of which was directed to the general support of State governments and was not assigned for highway purposes, was accounted for by:

1. Taxes on sales of motor vehicles, amounting to \$230,418,000 or 64.5 percent.

2. Taxes on filling and service station sales, amounting to \$63,309,000 or 17.7 percent.

3. Taxes on garage and repair shop sales, amounting to \$22,311,000 or 6.2 percent.

4. Taxes on sales of accessories, tires, and batteries, amounting to \$20,360,000 or 5.7 percent.

5. Taxes on the sale operations of the automotive and petroleum industries, amounting to \$17,276,000 or 4.8 percent.

6. Taxes on the sale of other allied motor-vehicle goods and services, amounting to \$3,769,000 or 1.1 percent.

Only two States had imposed general sales taxes in 1932 and the revenue was relatively insignificant. In that year revenues from sales taxes on automotive goods were less than \$200,000. By 1937, when 30 States had adopted and 22 States still retained a sales tax, the automotive portion of collections exceeded \$75,000,000. Although the automotive portion in 1939 dropped slightly below \$74,000,000, it is expected that with improved economic conditions and the probable adoption of sales taxes by additional States, the motor-vehicle portion will increase.

### STUDY MADE TO DETERMINE EXTENT OF TOTAL HIGHWAY-USER TAXATION

While the concept of special taxes on the highway user to finance road improvements has generally been limited to such levies as registration fees and gasoline

<sup>1</sup> Then the Bureau of Public Roads. Report was published as "The Taxation of Motor Vehicles in 1932," G. P. St. Clair, October 1934.

taxes, the amount of sales taxes paid on account of highway use is an important related problem. Some consideration has been given to the amount of highway-user taxes used for other than highway purposes but little thought has been given to the amount of these other taxes specifically resulting from motor-vehicle operation, of which only a small portion finds its way to the support of highways. Since all levies to which the motor-vehicle operator is subject because of his use of the highways directly affect the amount he is willing or able to pay for such highway services, the extent of all taxes affecting his use of the highways must be given adequate consideration in any taxing program.

Since the beginning of motor-vehicle transportation, almost every year has witnessed the imposition of a higher aggregate of specific taxes on the highway user. While the extent of direct taxation in the form of gasoline taxes and registration fees is largely a matter of general information, the public is not generally aware of the contributions, particularly in recent years, by the highway user in the form of other indirect but inescapable charges.<sup>2</sup> Legislators—Federal, State, and local—seeking new sources of revenue for various purposes, and undoubtedly impressed by the apparently inexhaustible source of funds which the highway user appeared to provide, soon cast covetous eyes in that direction for additional funds. The multiplicity of taxes now levied on the highway user is such as to make it almost impossible to determine the full extent of his contribution toward the support of government in the form of taxes resulting from his ownership and use of a motor vehicle.

The following summary of the principal taxes on motor-vehicle owners by the various governmental agencies outlines the types of taxes levied at the various levels of government.

1. Federal.

Excise taxes on gasoline, lubricating oil, automobiles and motorcycles, trucks, tires and tubes, and parts and accessories.

2. State.

a. *Special*.—Taxes on gasoline and lubricating oil; registration, title and operators' and chauffeurs' permit fees; gross receipts and ton-mile taxes; occupational and privilege taxes; road and bridge tolls.

b. *General*.—Personal property and sales taxes.

3. County.

a. *Special*.—Taxes on gasoline; registration fees and wheel taxes; operators' license fees; road and bridge tolls.

b. *General*.—Personal property taxes.

4. Municipal.

a. *Special*.—Taxes on gasoline; registration fees and wheel taxes, operators' license fees, operating and franchise taxes; road and bridge tolls and parking meter charges.

b. *General*.—Personal property and sales taxes.

5. Other units.

a. *Township, special road districts, etc.*—Personal property and special franchise taxes.

b. *Special road and bridge authorities*.—Tolls.

These are by no means all of the taxes eventually paid by the motor user, but they illustrate the com-

plexity of the problem. Partial figures on the various kinds and amounts of motor-vehicle taxation prepared by various governmental agencies, industrial organizations, and other interested parties are available, but these have been confined largely to State and Federal taxes.<sup>3</sup>

The report by the Public Roads Administration entitled "The Taxation of Motor Vehicles in 1932," published in 1934, is still the most comprehensive survey ever made of motor-vehicle taxation in the United States. However, that report purposely excluded indirect charges such as real property taxes on automotive properties (factories, garages, truck and bus terminals, etc.), State chain store and retail sales taxes, and income and similar taxes which are not levied directly on the ownership and operation of the motor vehicle.

#### SALES TAXATION AN IMPORTANT ELEMENT IN MANY STATE TAX SYSTEMS

Renewed attention has been directed recently to the problem of determining the extent of taxation, other than the specific highway-user taxes, imposed on motor-vehicle owners. Inquiry into State and local taxation has been made by field representatives of the Public Roads Administration in connection with the highway planning surveys. Efforts were directed toward making a general survey of conditions in each State relative to real and personal property taxes, special assessments, sales, and other special taxes on motor-vehicle ownership or operation, as well as on allied properties and businesses directly associated with the motor vehicle or its operation.

One of the primary facts disclosed by this investigation in several States is that general sales taxation has become an important element in many State tax systems. In 7 of the 22 sales tax States the tax has increased in importance until in 1937 it was the largest single source of revenue, displacing the gasoline tax which held this distinction for many years.<sup>4</sup> Moreover, examination of the reported collections from this type of tax indicated that motor-vehicle owners as a class contributed more than was ordinarily supposed. The magnitude of these contributions and the disclosure that these data were readily available prompted a Nation-wide survey to determine the approximate amount of sales taxes paid by the motor-vehicle owner.

The data were obtained by field representatives of the Public Roads Administration from the various State departments or sales tax department records, with the assistance of the highway planning survey personnel in many States.

Generally, sales tax data were available showing the amounts paid by the principal tax-paying groups. Though variations existed between the States in the business classifications followed, major groups were generally common to all States. In some instances it was necessary to use estimates provided by State officials or based on the previous or the following year's data. In the majority of cases, however, the desired information was available directly from the State records.

The data reported here vary in some instances from published figures, but these variations are the result of

<sup>2</sup> For recent trends in highway taxation, see Trends in Highway Financial Practices, a report of the Department of Highway Finance, Highway Research Board, Thomas H. MacDonald, chairman. Proceedings of the Nineteenth Annual Meeting, 1939, page 15.

<sup>3</sup> A special report, Local Imposts on Motor Vehicles in Missouri, by John H. Long and Bailey H. Mayes appeared in PUBLIC ROADS, May 1940, page 49.

<sup>4</sup> Ohio, Illinois, Michigan, Iowa, Missouri, North Dakota, and California; see Tax Systems, Eighth Ed., Tax Research Foundation, pp. 325-348.

necessary adjustments to allow for refunds, errors, and similar items. The amounts include penalties and interest, registration and permit fees, and merchants' or retailers' commissions. In some cases it has been necessary to present gross figures, but generally net figures are presented and all data are reconcilable to official published releases.

Although an attempt was made to obtain the sales tax data for the same fiscal period in each State, it was impossible to do so. Consequently, the data are presented for the fiscal period used in each State. The fiscal period applying to the data in the respective States is indicated in table 1. The period of this study extends from the year 1932, when the first retail sales tax was enacted, through the fiscal years ending during

the calendar year 1939. For convenience of analysis and comparison, the States have been grouped according to the geographic divisions followed by the United States Bureau of the Census.

The sales tax employed by most States is a flat or ad valorem levy made upon the sale or gross proceeds derived from the sale of commodities, properties, or services. It may be imposed upon retailers, wholesalers, manufacturers, producers, public utilities, trades, occupations, or professions. It may be imposed upon the sales of a particular commodity or it may be restricted to sales of tangible personal property at retail for use or consumption. In any event the sales tax is usually paid by the ultimate consumer to the retailer or vendor, who pays the money to the State.

TABLE 1.—Total collections from State general sales taxes, use taxes and motor-vehicle excise taxes, 1932-39

Geographic division and State	Collections for fiscal year ending in—									Data for fiscal year ending—	Sales tax effective—	
	1932	1933	1934	1935	1936	1937	1938	1939	Total			
Middle Atlantic:	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000			
New York <sup>1</sup>			23,156	7,623	2 15	2 26	2 15		30,835	June 30	May 1, 1933.	
New Jersey <sup>1</sup>				6,937	3 157	3 157	3 81		7,175	June 30	July 1, 1935.	
Pennsylvania <sup>1</sup>		9,122	4 442	4 240	4 65	4 61	4 20	4 4	9,954	May 31	September 28, 1932.	
Subtotal		9,122	23,598	7,863	7,017	244	116	4	47,964			
East North Central:												
Ohio				48,105	57,979	52,015	40,969	47,911	246,979	December 31	January 27, 1935.	
Illinois		36,633	39,034	53,912	71,823	83,281	79,193	87,137	451,013	December 31	July 1, 1933.	
Michigan			34,872	38,798	46,596	55,309	51,706	51,503	278,784	June 30	July 1, 1933.	
Subtotal		36,633	73,906	140,815	176,398	190,605	171,868	186,551	976,776			
West North Central:												
Iowa			5 44	11,288	13,442	15,041	15,693	15,810	71,318	June 30	April 1, 1934.	
Missouri			4,257	6,602	11,608	17,202	20,924	22,868	83,461	December 31	January 15, 1934.	
North Dakota				1,966	2,742	2,886	2,806	2,905	13,305	December 31	May 1, 1935.	
South Dakota					2,458	3,076	4,033	4,211	13,778	June 30	July 1, 1935.	
Kansas							8 11,204	9,804	21,008	June 30	June 1, 1937.	
Subtotal			4,301	19,856	30,250	38,205	54,660	55,598	202,870			
South Atlantic:												
Maryland <sup>1</sup>				1,955	3,135	710	438	516	6,754	September 30	April 1, 1935.	
West Virginia				1,769	7,012	8,341	9,447	8,590	44,179	June 30	April 1, 1934.	
North Carolina				6,012	7,658	10,184	11,328	11,013	57,193	June 30	July 1, 1933.	
Subtotal			7,781	16,625	21,660	21,485	20,471	20,104	108,126			
East South Central:												
Kentucky <sup>1</sup>				9,347	7,220	1,380	1,121	955	20,023	June 30	July 1, 1934.	
Alabama						2,903	5,544	5,882	14,329	September 30	March 1, 1937.	
Mississippi	1,371	2,506	3,649	3,955	5,305	6,123	5,874	6,515	35,298	December 31	May 1, 1932.	
Subtotal	1,371	2,506	3,649	13,302	12,525	10,406	12,539	13,352	69,650			
West South Central:												
Arkansas					3,269	4,309	4,655	5,032	17,265	June 30	July 1, 1935.	
Louisiana <sup>1</sup>					597	3,539	4,428	6,219	14,783	December 31	October 1, 1936.	
Oklahoma			3,825	4,768	5,835	11,501	12,650	11,784	50,363	June 30	July 10, 1933.	
Subtotal			3,825	4,768	9,701	19,349	21,733	23,035	82,411			
Mountain:												
Idaho <sup>1</sup>				1,525	1,852				3,377	December 31	July 1, 1935.	
Wyoming					1,484	1,776	1,944	1,809	7,013	April 30	April 1, 1935.	
Colorado				4,411	6,603	8,119	8,414	9,231	36,778	December 31	February 2, 1935.	
New Mexico			1,112	2,131	2,617	3,649	3,404	3,813	16,726	December 31	June 1, 1934.	
Arizona			1,130	1,687	2,929	3,703	3,898	3,569	16,916	June 30	July 1, 1933.	
Utah		14	1,731	2,496	2,967	3,412	3,465	3,636	17,721	June 30	May 1, 1933.	
Subtotal		14	3,973	12,250	18,452	20,659	21,125	22,058	98,531			
Pacific:												
Washington					9,654	12,278	12,703	11,772	46,407	April 30	May 1, 1935.	
California			46,586	60,615	73,286	88,411	86,732	89,471	445,101	June 30	August 1, 1933.	
Subtotal			46,586	60,615	82,940	100,689	99,435	101,243	491,508			
Total	1,371	48,275	167,619	276,094	358,943	401,642	401,947	421,945	2,077,836			

<sup>1</sup> States that have repealed sales tax or permitted law to expire. Louisiana subsequently repealed sales tax effective December 31, 1940.

<sup>2</sup> Delinquent assessments; law expired June 30, 1934.

<sup>3</sup> Delinquent assessments; law repealed October 25, 1935.

<sup>4</sup> Delinquent assessments, penalties and interest; law expired February 28, 1933.

<sup>5</sup> Amount estimated; largely permit fees.

<sup>6</sup> Includes highway privilege taxes.

<sup>7</sup> Includes original license fees for calendar year.

<sup>8</sup> Data for 13 months; law effective June 1, 1937.

<sup>9</sup> Includes excise tax on motor vehicles.

<sup>10</sup> Includes tax on certification of title for motor vehicles.

<sup>11</sup> Includes highway privilege tax on motor vehicles.

<sup>12</sup> Includes motor-vehicle usage tax effective May 15, 1936.

<sup>13</sup> Includes approximately \$89,000 delinquent collections made subsequent to repeal of law in 1936.

STUDY INCLUDED BOTH GENERAL SALES TAXES AND  
SPECIAL USE TAXES

This study is confined to the States levying general sales or use taxes on the sale of commodities and services variously designated as "gross receipts," "retail sales," "occupation," "use," "compensating," or "retailers." A general analysis of the operation of the various sales taxes in the several States was necessary to a determination of the relation of automotive goods taxation to the total sales taxation structure. Therefore, discussion of the basic principles of the operation of general sales taxation has been included in this report because the taxation of automotive goods under the general sales taxes is not an independent part of the tax structure.

Twenty-two States levied general sales or use taxes on the sale of commodities during 1939. It should be noted that neither the business or occupation taxes of West Virginia and Washington, nor the retail sales taxes levied by several larger cities, notably New York City, are included.

Connecticut, Delaware, Pennsylvania, and Virginia at present levy a restricted sales or merchants' license tax, but, because of their limited nature, the data for these States have been omitted from this study. Data for the general sales taxes imposed by Pennsylvania for a 6-month period in 1932-33, however, have been included. The gross income tax of Indiana is in the same category as general sales taxes, but because of the fundamental difference from the predominating type of "sales" taxes studied, data for that State were also omitted from the study.

Vermont passed a gross retail sales tax law effective in 1934, but it was declared unconstitutional in 1935 and was repealed by the legislature. The tax was in effect for approximately a year and yielded only a small amount of revenue. Consequently, Vermont's sales tax data have not been included in this study.

Similarly, Rhode Island imposed a restricted sales tax in 1932 to help finance unemployment relief. The law provided for levy and collection by local township authorities but was loosely interpreted and failed to produce the desired amount of revenue. Data for the Rhode Island sales tax were therefore also omitted from this study.

To make the data for the various States comparable, it was necessary to include certain special sales or excise taxes. For example, the motor-vehicle excise tax levied by Oklahoma is in effect a tax on motor-vehicle sales and therefore has been included. Likewise, it was believed desirable to include in this study the automobile usage tax levied by Kentucky, which is 3 percent on the retail price of the vehicle with standard equipment the first time it is registered in the State, and the excise tax levied by Maryland for every original motor-vehicle certificate of title issued at the rate of 2 percent of the fair market value.

The highway privilege tax in North Dakota, the original license fee in South Dakota, and the privilege taxes in West Virginia and North Carolina, all of which are in effect special sales taxes, have been included in this study. Maine, Massachusetts, New Hampshire, and Washington impose special excises or permit fees on motor vehicles. However, these imposts are in the nature of property tax levies, or in lieu of property taxes; they are not special sales excises and, therefore, have not been included in this study.

The extensive use of general sales taxation in the United States is evidently a product of the depression.

Of the States included in this study, the earliest general sales tax law was enacted by Mississippi in 1932 and the latest States to impose sales taxes were Alabama and Kansas in 1937. In almost all cases, the primary reason for the original enactment of the sales tax laws was a desire to bolster declining revenues as well as to provide for property tax relief. In most cases, too, the sales tax was adopted as a duration-of-the-emergency measure, usually for a 2-year period, under the belief that conditions might later become such that the impost could be dropped from the State's tax system.

STATE SALES TAX REVENUES 1932-39 EXCEEDED 2 BILLION DOLLARS

However, the startling success of the sales tax as a revenue producer has made an impression on legislators and even the severest critics of the tax have had to admit its success in that particular. In addition, the period during which sales tax laws were most widely adopted witnessed an increasing demand by the people that the States assume new functions and provide new services. The social security programs inaugurated by the Federal Government and several States in recent years, probably more than anything else, have led many States to seek other sources of revenues than those on which they had previously relied. The ease with which the sales tax could be collected, the large sums that could be derived therefrom, and the quickness with which the tax could be applied for emergency purposes were factors leading to the adoption of this particular form of taxation by many States.

The total revenue derived by the States from general sales taxation since 1932 is well in excess of 2 billion dollars. The annual income to the States from this source during the last few years has been approximately 400 million dollars, the proceeds during 1939 being \$421,945,000. In that year the sales tax income constituted 22.5 percent of the State tax revenues in sales tax States, evidence of the importance of sales taxes in the taxation systems of those States.

The relative magnitude of sales tax revenues in so many States suggests that reliance has been put on this form of taxation. The continued failure of property and other taxes to meet governmental requirements, the inertia of long established tax systems and consequent inability to meet rapidly changing social and economic conditions, the growing disapproval of the property tax as a major source of revenue, and the changing attitude on the part of the public toward the sales tax may result in the sales tax becoming more than a temporary or emergency tax.

A summary of the sales tax collections by years and the per capita collections are shown in figure 1 and table 2.

Table 3 presents data by States showing the relative importance of the sales tax in each State's fiscal structure in 1937 and 1939. Sales tax collections in 1937 represented 25.2 percent of the total State tax revenues, and although this percentage was only 22.5 in 1939, receipts, as shown in table 2, were actually greater than in 1937. This change was caused by the increasing importance in more recent years of such imposts as the unemployment insurance taxes. Of all the States, Illinois derived the greatest percentage of its revenue from the sales tax—47.4 percent in 1937 and 34.2 percent in 1939—while Louisiana



obtained the least—5.1 percent in 1937 and 7.7 percent in 1939. Table 3 indicates that Maryland and Kentucky derive the lowest percentages of income from sales taxes; however, these States do not impose a general sales tax but only special excises on motor vehicles. The large proportion of total State revenues represented by sales taxes in many States indicates that there is probably no immediate prospect of

TABLE 2.—Amount of annual sales tax collections, 1932-39 <sup>1</sup>

Year	Amount	Per capita <sup>2</sup>	Number of States imposing sales taxes <sup>3</sup>
	\$1,000		
1932.....	1,371	\$0.63	2
1933.....	48,275	2.35	9
1934.....	167,619	3.26	15
1935.....	276,094	4.23	24
1936.....	358,943	5.70	24
1937.....	401,642	6.58	22
1938.....	401,947	6.39	22
1939.....	421,945	6.71	22
Total.....	2,077,836		

<sup>1</sup> Includes motor-vehicle excises as well as general sales taxes.

<sup>2</sup> Based on United States Bureau of the Census 1940 population for sales tax States.

<sup>3</sup> In effect at end of calendar year.

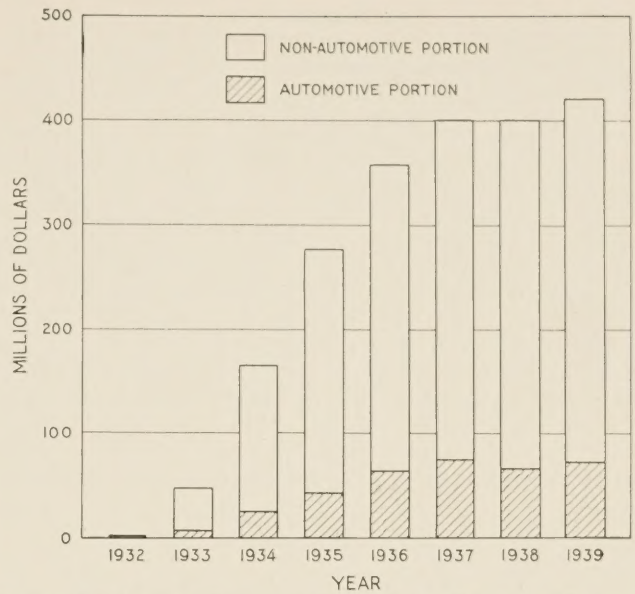


FIGURE 1.—ANNUAL REVENUE FROM SALES TAXATION SHOWING THE AUTOMOTIVE PORTION, 1932-39.

TABLE 3.—Comparison of total State taxes and total sales taxes collected in 1937 and 1939

Geographic division and State	Taxes collected in 1937			Taxes collected in 1939		
	Total State taxes <sup>1</sup>	Sales taxes		Total State taxes <sup>1</sup>	Sales taxes	
		Amount	Percentage of total		Amount	Percentage of total
	\$1,000	\$1,000		\$1,000	\$1,000	
East North Central:						
Ohio.....	235,632	52,015	22.1	255,588	47,911	18.7
Illinois.....	175,520	83,281	47.4	254,663	87,137	34.2
Michigan.....	148,027	55,309	37.4	169,944	51,503	30.3
Subtotal.....	559,179	190,605	34.1	680,195	186,551	27.4
West North Central:						
Iowa.....	65,149	15,041	23.1	69,002	15,810	22.9
Missouri.....	88,296	17,202	19.5	88,943	22,868	25.7
North Dakota.....	10,404	2,886	27.7	12,191	2,905	23.8
South Dakota.....	12,931	3,076	23.8	16,044	4,211	26.2
Kansas.....	25,515	( <sup>2</sup> )		41,501	9,804	23.6
Subtotal.....	202,295	38,205	18.9	227,681	55,598	24.4
South Atlantic:						
Maryland.....	33,942	<sup>3</sup> 710	2.1	44,721	516	1.2
West Virginia.....	46,603	9,447	20.3	52,626	8,590	16.3
North Carolina.....	73,300	11,328	15.5	77,453	10,998	14.2
Subtotal.....	153,845	21,485	14.0	174,800	20,104	11.5
East South Central:						
Kentucky.....	48,088	<sup>4</sup> 1,320	2.9	52,825	955	1.8
Alabama.....	41,992	2,903	6.9	48,978	5,882	12.0
Mississippi.....	27,020	6,123	22.7	29,580	6,515	22.0
Subtotal.....	117,100	10,406	8.9	131,383	13,352	10.2
West South Central:						
Arkansas.....	22,405	4,309	19.2	31,280	5,032	16.1
Louisiana.....	69,373	3,539	5.1	80,640	6,219	7.7
Oklahoma.....	59,712	11,501	19.3	61,210	11,784	19.3
Subtotal.....	151,490	19,349	12.8	173,130	23,035	13.3
Mountain:						
Wyoming.....	8,930	1,776	19.9	10,716	1,809	16.9
Colorado.....	29,964	8,119	27.1	35,589	9,231	25.9
New Mexico.....	13,120	3,649	27.8	15,492	3,813	24.6
Arizona.....	17,856	3,703	20.7	18,717	3,569	19.1
Utah.....	15,385	3,412	22.2	17,740	3,636	20.5
Subtotal.....	85,255	20,659	24.2	98,254	22,058	22.4
Pacific:						
Washington.....	67,750	12,278	18.1	65,767	11,772	17.9
California.....	253,828	88,411	34.8	319,953	89,471	28.0
Subtotal.....	321,578	100,689	31.3	385,720	101,243	26.2
Total.....	1,590,742	401,398	25.2	1,871,163	421,941	22.5

<sup>1</sup> From Tax Systems, eighth ed., The Tax Research Foundation.

<sup>2</sup> Sales tax effective June 1, 1937.

<sup>3</sup> Motor-vehicle excise tax only.

<sup>4</sup> Automobile usage tax only.

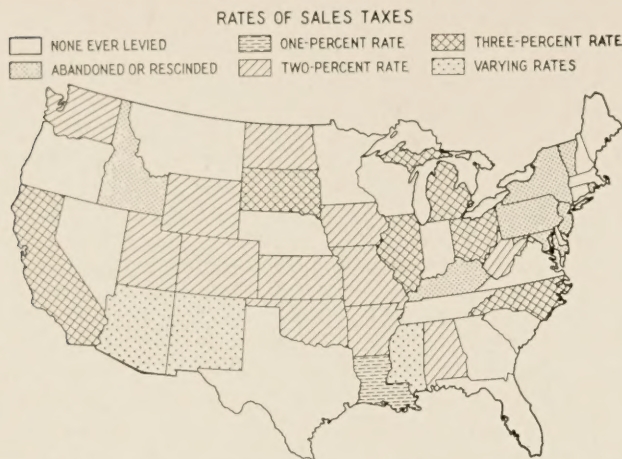


FIGURE 2.—STATUS OF THE STATE GENERAL SALES TAXES IN 1939.

eliminating such taxes from the revenue systems of those States.

The fact that 22 of the 30 States that have had sales taxes still retain them emphasizes the continued reliance by legislators on this tax to augment other sources of State revenue or to replace the decreasing revenues of certain out-moded taxes. Figure 2 shows that no region of the United States has escaped sales taxation entirely. Although eight States have discontinued their sales taxes, several others that do not now impose such levies have been seriously considering the adoption of this form of taxation. In Oregon sales tax proposals have been defeated twice by referendums and the Texas legislature has voted down a similar proposal. In several other States active sales tax blocs are continuing their campaigns for the adoption of such taxes.

It is significant, however, that none of the highly industrialized States in the East now has a sales tax; the only area on the Atlantic seaboard north of North Carolina that has such a tax is New York City. It will be seen in figure 2 that six States in this area which at one time had sales taxes repealed them or allowed them to become ineffective. Only two other States in the rest of the country, Kentucky and Idaho,<sup>5</sup> discarded their sales taxes. The fact that none of the industrialized States on the eastern seaboard now has a sales tax may indicate the ability of those States to satisfy their revenue requirements from other tax sources, in contrast to southern and western States. However, the absence of such taxes may be caused by disapproval on the part of a public largely made up of wage earners, as compared with the larger portion of the population in southern and western States deriving relatively less of its total income from wages. Sales taxes normally would affect the wage earner more than the agricultural worker, since practically everything by which the former carries on the normal functions of living is subject to tax.

General acceptance of the sales tax appears to be based on the following principles:

1. Success and reliability as a revenue producer and ease of administration.

2. The fact that "everyone contributes a little." Although generally referred to as a "poor man's" tax, it is often defended on the grounds that the proceeds are usually earmarked for aid to the needy, aged, blind, dependent children, education, and such purposes.

<sup>5</sup> Louisiana subsequently repealed its sales tax, effective December 31, 1940.

USE AND COMPENSATING TAXES DESIGNED TO SUPPLEMENT SALES TAXES

Many sales tax States impose complementary taxes generally known as use or compensating taxes which are intended primarily to plug the loopholes of the sales tax acts. They are designed as companions to the sales tax to compensate the State for taxes that might be lost as a result of purchases made outside the State. A further purpose of the use tax is to enable local merchants to meet the competition of merchants in adjacent States which do not impose a sales tax.

In 1939, 18 of the 22 general sales tax States imposed special use or compensating taxes. In Arkansas, Colorado, and Louisiana, the use-tax features are incorporated into the sales tax laws. It can be expected that additional use taxes will be enacted in those States retaining or adopting a general sales tax inasmuch as merchants or retailers are likely to insist on the imposition of use taxes to meet competition in adjacent non-sales-tax States.

A more recent development in sales tax administration has been fostered by a United States Supreme Court decision which upheld the right of a State to tax sales made within the State on merchandise which is shipped to the buyer from a point outside the State. The Missouri Sales Tax Department subsequently issued a regulation requiring the payment of the sales tax on out-of-State purchases contracted for in Missouri. Other States are reported to have adopted similar regulations.

Another recent United States Supreme Court decision<sup>6</sup> held taxable under the use tax all sales made in Iowa including mail order sales filled from out-of-State mail order divisions. The Court ruled that companies may be compelled to collect use taxes provided they are registered to do business and maintain retail stores in the State. As a result of this decision, it is believed that sales tax States generally will attempt to collect taxes on sales made by mail order houses. Since a large percentage of these sales involve tires, batteries, parts and accessories, and other automotive equipment, it can be expected that the portion of the sales taxes attributable to the motor vehicle and its operation will show a substantial increase in the future.

Since the imposition of the first use tax by the State of Washington in 1935, the revenue produced by these taxes through 1939 amounted to \$23,053,800. In 1939 the proceeds totaled \$9,666,600 or 2.29 percent of the total sales and use-tax revenue. The use-tax receipts for the years 1936 through 1939 are shown in table 4.

TABLE 4.—Collections from State use or compensating taxes, 1936-39<sup>1</sup>

Tax year ending in—	Collections from use taxes	
	Amount	Percentage of total sales tax collections
1936	\$2,169,300	0.06
1937	4,153,300	1.03
1938	7,064,600	1.76
1939	9,666,600	2.29
Total	23,053,800	1.45

<sup>1</sup> Includes merchant's commissions and deductions.

<sup>6</sup> *Nelson et al. v. Sears Roebuck and Company*, and *Nelson et al. v. Montgomery Ward and Company*, February 17, 1941.

A large portion of the use taxes is attributable to automotive sales. Of the total of \$23,053,800 in use-tax proceeds in the period from 1936 through 1939, approximately \$8,276,300 or 35.9 percent was assessed against motor-vehicle and allied sales.

Of the 22 States that levied general sales taxes in 1939, 6 had rates of 3 percent, 12 had a 2-percent rate,<sup>7</sup> and 1 State imposed a 1-percent tax. The remaining 3 States imposed taxes at rates varying from one-eighth of 1 percent to 2½ percent (table 5).

Although the various sales tax laws in general provide for taxation of approximately the same sales, many differences exist with regard to taxable sales which come within the scope of the sales tax law either specifically or through administrative interpretation.

For example, the Illinois tax law provides that sales for resale are generally not taxable. Under the law, sales of milk, cream, sugar, etc., to a company to be used in manufacturing ice cream are not taxable, since the sales tax department rules that "sales of goods which, as ingredients or constituents, physically enter into and form part of tangible personal property sold by the buyer" are not sales at retail. "The test of a sale at retail is whether the sale is to a purchaser for use or consumption and not for resale in any form as tangible personal property \* \* \* In general, the tax is intended to be measured by receipts from a sale which constitutes the last actual transaction prior to ultimate use or consumption." It is evident that many difficulties could arise in the interpretation of this provision.

In Mississippi, sales include "barter or exchange of properties as well as the sale thereof for money, every closed transaction constituting a sale."

<sup>7</sup> Alabama's rate on automobiles is ½ of 1 percent on new motor vehicles. All other sales are taxed at 2 percent.

In North Dakota, sales mean "any transfer, exchange, or barter, conditioned or otherwise in any manner or by any means whatsoever, for any consideration."

South Dakota defines sales as "sale of tangible personal property to the consumer or user thereof, or to any person for any purpose other than for resale."

The above examples of what is considered a sale subject to sales taxes are sufficient to indicate that the intent of the law is widely different in the several States. That the administration of the law varies considerably in the States is readily acknowledged by State tax administrators. At the eighth annual conference of the National Association of Tax Administrators held in St. Louis, Missouri, in May 1940, this lack of uniformity was admitted and a committee was appointed to draw up a uniform sales tax law for adoption by all States and a uniform set of regulations governing such a law.

#### EXEMPTIONS FROM SALES TAXATION DIFFER AMONG STATES

The sales tax laws usually state specifically the businesses or transactions which do not come under the provisions of the law. In all States, sales to the Federal Government and transactions in interstate commerce are not taxable. In some States exemptions are limited to the sales of gasoline and other items already taxed under another law. Other States extend the exemptions to include sales of real property, gas, electricity, and water, sales of food products for human consumption, etc.

Action has been taken by the Federal Government to prevent the imposition of State sales taxes on certain activities connected with the national defense program. The statement of the Government's position was given in a memorandum early in June 1941 from Acting

TABLE 5.—States which have imposed general sales and use taxes, and status as of 1939

State	General sales tax				Use or compensating tax	
	Year first effective	Status in 1939	Tax base	Rate	Tax in effect	Effective date
Alabama	1937	In effect	Gross receipts of sales	Percent	Yes	1937
Arizona	1933	do	Gross proceeds of sales	<sup>1</sup> Varying	No	
Arkansas	1935	do	do	2	Yes	1937
California	1933	do	Gross receipts of sales	3	Yes	1935
Colorado	1935	do	Gross proceeds of sales	2	Yes	1936
Idaho	1935	Repealed 1936				
Illinois	1933	In effect	Gross receipts of sales	3	No	
Iowa	1934	do	do	2	Yes	1937
Kansas	1937	do	Gross proceeds of sales	2	Yes	1937
Kentucky	1934	Repealed 1936				
Louisiana	1936	In effect <sup>2</sup>	Gross proceeds of sales	1	Yes	
Maryland	1935	Expired 1936				
Michigan	1933	In effect	Gross proceeds of sales	3	Yes	1937
Mississippi	1932	do	do	<sup>4</sup> Varying	Yes	1938
Missouri	1934	do	Gross sales receipts	2	No	
New Mexico	1934	do	Gross proceeds of sales	<sup>3</sup> Varying	Yes	1939
New Jersey	1935	Repealed 1935				
New York	1933	Expired 1934				
North Carolina	1933	In effect	Gross proceeds of sales	<sup>6</sup> 3	Yes	1939
North Dakota	1935	do	Gross receipts of sales	2	Yes	1939
Ohio	1935	do	Amount of retail sales	3	Yes	1936
Oklahoma	1933	do	Gross proceeds of sales	2	Yes	1937
Pennsylvania	1932	Expired 1933				
Rhode Island	1932	Abandoned	Retail sales	Varying	No	
South Dakota	1935	In effect	Gross receipts of sales	3	Yes	1939
Utah	1933	do	do	2	Yes	1937
Vermont	1934	Repealed 1935				
Washington	1935	In effect	Retail sales (selling price)	2	Yes	1935
West Virginia	1934	do	Gross proceeds of sales	2	No	
Wyoming	1935	do	Retail sales	2	Yes	1937

<sup>1</sup> Rate on new automobiles ½ of 1 percent.

<sup>2</sup> Rates from ¼ of 1 percent to 2 percent.

<sup>3</sup> Subsequently repealed, effective Dec. 31, 1940.

<sup>4</sup> Rates from ⅙ of 1 percent to 2½ percent.

<sup>5</sup> Rates from ⅙ of 1 percent to 2 percent.

<sup>6</sup> Rates on wholesalers ½ of 1 percent.

Attorney General Francis Biddle to John H. Hendren, Jr., Chairman of the Committee on Uniform Sales Taxation, National Association of Tax Administrators.

The memorandum stated that the Department of Justice would resist in the courts the imposition of State sales taxes or use taxes on cost-plus-fixed-fee contractors on the national defense program with respect to purchases of supplies and materials made by them. These taxes, it was pointed out, were in effect taxes on the Federal Government since the contractors were "instrumentalities of the United States."

The validity of taxes levied solely on vendors and legally absorbed as part of the sales price, and of non-discriminatory State taxes levied on fees paid to contractors by the Federal Government, would not be challenged for the present, the Department stated.

According to the Department the statement was occasioned by the delay that had already occurred as a result of the imposition of sales taxes in certain States. Since there was no authority for the Government's disbursing officers to pay such taxes, payments had been withheld, and stoppage in the flow of critical materials to the construction sites had been threatened.

A number of States, by administrative action or legislative enactment prior to the Department's ruling, had already exempted the Federal Government and cost-plus-fixed-fee contractors from State taxes. The Department suggested that other States follow a similar procedure wherever possible and that the assessment or collection of taxes levied on defense work be withheld until the United States Supreme Court had had an opportunity to consider their validity.

Agricultural States usually exempt farm produce and agricultural products. Southern cotton-raising States generally exempt sales of cotton and cotton products. Some western States exempt sales of water for irrigation, domestic, and industrial use. Although personal services, labor, repair work, etc., are exempt in most States, Colorado and West Virginia levy a service tax which subjects these items to taxation. While there are a number of exemptions common to all States, each State apparently has particular transactions which it exempts for one reason or another.

Special efforts are made in many States to tax motor-vehicle sales. Some States (Oklahoma, Maryland, and Kentucky) resort to special excises. Other States have adopted a use tax or use-tax features to insure tax collections from motor-vehicle sales. Inasmuch as the manufacture of motor vehicles is confined to a small number of States, use or compensating taxes which provide for a tax on "property used or brought into a State" are particularly adapted to the taxation of vehicles. Additional safeguards are utilized in a number of States by provisions of the law which require the payment of the sales tax before a certificate of title or license can be issued. The sales tax law in other States specifically covers the sale of motor vehicles, and in three States the law provides for a special rate to apply to the motor vehicle.

In addition to these special provisions to insure taxation of the vehicle, practices differ widely as to the extent of taxation. A few States tax the vehicle only once, in the form of a single excise on new vehicles. Other States collect the tax upon new vehicles when first licensed in the State, and upon used vehicles only at time of first transfer of title during a calendar year. Still others tax each and every sale regardless of the number of times a vehicle may be involved in

sales during the year, resulting in multiple taxation.

Following is a brief discussion of methods employed by various States to tax the motor vehicle. These methods have been classified as privilege taxes and original license fees, motor-vehicle excises, special use taxes, special sales taxes, and general sales taxes.

South Dakota collects an "original license fee" under legislation which provides that "in addition to any and all other license fees, registration fees, and compensation for the use of the highways, there shall be paid to the county treasurer upon the application for the first or original registration of a motor vehicle, an additional and further license fee of 3 percent of the purchase price of such motor vehicle or the fair market value thereof, whichever is the greater; the payment of such 3-percent license fee shall be in full and in lieu of all occupational, sales, excise, privilege, and franchise taxes levied by this State upon the gross receipts from all sales of motor vehicles." The proceeds go into the State general fund.

North Dakota imposes a "highway privilege" tax enacted primarily to protect dealers against the competition of dealers in non-sales-tax States. The rate is "2 percent of the sales price of any vehicle purchased or acquired for use on the streets and highways of this State requiring registration thereof under the motor-vehicle laws of North Dakota." The tax is collected at time of first registration and no registration plates or certificate may be issued until the tax is paid. The proceeds are credited 50 percent to the State Highway Department and 50 percent to the counties for highway purposes.

In addition to the taxes levied by any other law, North Carolina imposes upon every person for the privilege of using the streets and highways of the State a tax of 3 percent of the sales or purchase price of any new or used motor vehicle purchased or acquired for use on the streets and highways of North Carolina and requiring registration under the motor-vehicle laws of the State. However, no tax payment may exceed \$15 and it must be paid at the time application is made for certificate of title or registration of motor vehicle. No certificate of title or registration plates are to be issued unless and until the tax is paid. The tax is also imposed on trailers. The proceeds are used for school purposes.

West Virginia imposes a tax upon certification of title for a motor vehicle. The tax is imposed for the privilege of effecting the certification of title of each motor vehicle in an amount equal to 2 percent of the value of vehicle at the time of certification. The proceeds go into the State road fund to be expended for construction and maintenance of secondary roads.

Oklahoma imposes an excise of 2 percent upon the value of the vehicle, to be collected upon the first transfer of title of used vehicles during the calendar year, as well as upon every new vehicle when first licensed in the State. Proceeds go to State assistance and general funds.

Kentucky imposes an automobile usage tax which is a special levy on the privilege of using the automobile. This special excise levies a tax of 3 percent on the retail price of the vehicle with standard equipment at the time of its first registration in the State. The proceeds go into the State general fund.

Maryland levies an excise tax for every original motor-vehicle certificate of title at the rate of 2 percent of the fair market value. This tax was imposed

at a rate of 1 percent prior to September 30, 1939; after that date the rate was increased to 2 percent. The tax affects new cars primarily, but also affects used vehicles brought into Maryland from out of the State and registered in Maryland for the first time. The proceeds go into the general fund.

The Arkansas sales tax on motor vehicles is specifically collected under the use-tax law providing for the taxation of property purchased outside the State for use in Arkansas. Motor vehicles are specifically mentioned in the use-tax law. The proceeds are used for free textbooks, schools, homestead exemption, charitable institutions, and public welfare.

Iowa's use-tax law provides for a 2-percent excise on the value of motor vehicles and trailers to be collected by the county treasurer at the time the owner applies for a certificate of registration. No certificate can be issued until the tax is paid. The proceeds of the use tax go to the general fund.

The motor vehicle is taxed specifically in Mississippi under the general sales tax law at a special rate of 1 percent of gross proceeds of sale. Rates under the sales tax law vary from one-eighth of 1 percent to 2½ percent on specified transactions. Proceeds go into the State general fund.

The New Mexico sales tax law taxes the motor vehicle and allied businesses at the following rates:

	Percent
Car dealers (new and used cars) .....	½
Trucks and tractors .....	¼
All other businesses .....	2

Proceeds of this tax go into the school fund.

Sales of new motor vehicles are taxed by Alabama at the rate of one-half of 1 percent. All other sales are taxed at the 2-percent rate. The proceeds go into the State general fund.

In the remaining States, no specific provision is made to tax the motor vehicle, although it is subject to taxation under the general provisions of the sales tax laws. The proceeds are used for purposes of State general funds, relief, old age pensions, schools, and for similar purposes.

**COLLECTION OF TAXES INSURED BY SPECIAL ARRANGEMENTS**

A few States have special arrangements in tax collection procedure to insure the taxation of motor-vehicle sales. In Michigan, for example, the Secretary of State is made responsible for the collection of the sales tax on motor vehicles. The dealer is required to register the vehicle and secure title in the purchaser's name when the sale is made, and the application for registration must be accompanied by the sales tax payment. The Secretary of State renders an account of such collections to the proper administrative officials.

Likewise, Arkansas requires the sales tax on new auto mobiles to be paid before a license is issued even though the car may have been purchased outside the State. The law requires the commission to collect the tax before licensing a vehicle. Iowa's use-tax law provides for the collection of the sales tax on motor vehicles by the county treasurers at the time of application for certificate of title. No certificate can be issued until the tax is paid. Similarly, Oklahoma's motor-vehicle excise is collected on new vehicles at the time of first registration, and on used vehicles at the time of first transfer of title.

Other States are reported to have under consideration the adoption of similar provisions to secure the payment of sales taxes on motor vehicles.

Gasoline for highway use is generally exempt from general sales taxation, but in some States where refunds of fuel tax or exemptions of the gas tax are permitted, special effort is made to impose the sales tax on tax-exempt gasoline sales.

In California motor-fuel sales for nonhighway purposes, which are subject to refunds, are liable for taxation under the sales tax act. The sales tax is collected by the State controller, who deducts the tax from the refund and transfers the amounts so collected to the sales tax fund. Iowa employs a similar method to collect the sales tax on refund gas sales. South Dakota also assesses sales taxes against refund-gasoline sales. The tax is collected by the State auditor at the time refunds are paid.

In North Carolina, there exists an unusual provision of the sales tax with regard to a tax on gasoline, whereby under certain conditions a tax can be levied on all gasoline sales. Apparently, it was not the intent of the law to exempt gasoline from the sales tax, nor was it considered expedient to levy a tax on the wholesale distribution of gasoline payable at the source of distribution. Therefore, to satisfy the intent of the law, a portion of the gasoline tax of 6 cents per gallon is to be determined and deemed in satisfaction of the sales tax as follows: The director of the budget, the chairman of the highway commission, and commissioner of revenue in the first 15 days of each quarterly period determine the total amount of gasoline sold in the State in the preceding 3 months, and the average retail price, inclusive of gasoline tax, and on this basis compute the amount of tax liability at the rate of tax levied on retail sales. The sum so computed shall be deducted from the tax of 6 cents a gallon and credited by the State treasurer to the sales tax revenue account.

These sums are made available only after full provision has been made for the expense of collecting highway revenues, for the administration of the highway and public works commission, for the service of the debt, and for reasonable maintenance of State and county highways. Nor is the money available to the general fund unless the director of the budget finds such sums to be reasonably necessary to meet appropriations from the general fund. The amount so allocated to the general fund shall not be transferred from the highway fund nor become a definite charge against it until the surplus in the general fund at the end of the fiscal year, together with current revenues, has been exhausted or until the director of the budget finds that such a transfer is necessary to prevent a deficit in the general fund or until the appropriations from the highway funds have been provided for. However, no gasoline tax receipts have been diverted to the general fund by the director of the budget in recent years.

**EVASION OF SALES TAXATION BELIEVED PREVALENT**

In the other sales-tax States no special effort is made to collect the sales tax on refund or tax-exempt gasoline sales presumably used for nonhighway purposes. Another problem which is part of the question of sales taxes on gasoline is the condition that exists in a few States where the tax on sales of gasoline constitutes a tax on the price of the gasoline plus the State and Federal gasoline taxes. This condition of multiple taxation can be avoided only by careful drafting of the enabling legislation, as it appears that it is not the legislative desire to enact laws that cause such multiple taxation.

Opinion is rather prevalent among tax officials that there is considerable evasion of sales taxes. The adoption of use or compensating taxes in many States was designed to plug the loopholes in the sales tax acts and to prevent "legal evasion" through interstate sales. The failure of the use taxes to accomplish this purpose is evidenced by the fact that use taxes have not been successful as revenue producers. However, failure of the use tax to produce revenue is not in itself proof of the failure of that tax to function properly. It may perform its function by decreasing the purchase of goods in non-sales-tax States with a resultant increase of purchases in the State of residence and a corresponding increase in the sales-tax collections. The latter increase takes the place of any increase in the receipts from use taxes but results directly from the presence of the use tax on the statute books.

Evidence of failure of the compensating tax is found in the admission of tax administrators. A typical comment on the subject is that of the State Tax Commission of Kansas.<sup>8</sup>

Corporations and others that keep books or accounts have very little chance of avoiding this tax, but individuals purchasing motor vehicles, trailers, farm machinery, mechanical equipment, office furniture and fixtures, household goods and furnishings, radios, jewelry, etc., that do not keep records are not voluntarily declaring and paying the compensating tax. It is extremely difficult, takes a great deal of time, and is very expensive to locate purchases of this kind, assess and collect the compensating tax on them.

Because of the great number of retailers who are required to report the sales tax, there is undoubtedly a considerable number who fail either to collect or to remit the full amount of the tax as required by law. In some States this condition cannot be corrected because of the small administrative force available to enforce the sales tax. Unquestionably the lack of sufficient auditors to audit the records of such a large number of retailers tends to encourage the evasion of taxes.

It is the general opinion of tax officials that the motor vehicle often escapes general sales taxation entirely unless provisions are adopted to insure the payment of taxes such as requiring a sales tax receipt before a vehicle license can be issued. This condition, coupled with the belief that the ownership of a motor vehicle indicates a superior tax-paying ability, has caused the adoption of safeguards to insure the payment of the taxes on motor vehicles and has promoted zealous efforts in the collection of these taxes.

Sales tax officials also believe that the sales of tires, batteries, parts, and similar motor-vehicle accessory items through large mail-order houses largely escape taxation, notwithstanding the fact that the use taxes were designed to tax sales of this kind.

#### COLLECTION AND ADMINISTRATION COSTS UNUSUALLY LOW

Although no attempt was made in this study to determine the actual administrative and collection costs of the sales tax, it has been generally reported that these costs have been unusually low, in some cases less than 1 percent of the total collections. This unusually low cost has contributed much to the ready acceptance of sales taxation, and inasmuch as this item is an important reason for the remarkable showing of sales taxes, the subject warrants some consideration.

In most States, the retail merchants are made in-

voluntary agents of the State in collecting the sales tax. The collection of this tax from the consumer population of each State is practicable only because the retailer or vendor acts as a tax collector. While the tax-paying group almost approximates the total population of the States, the tax is actually collected and paid over to the State by the relatively small number of retailers or vendors operating in each State. The administrative machinery of the State needs to function, therefore, only between the State and the retailers or vendors, not between the State and the hundreds of thousands or millions of tax-paying consumers. Thus, the expense of collection is borne by the merchants, who in the majority of cases are not reimbursed.

Another reason for the low cost of collection is due in part to the lack of effective enforcement. Legislators appear to be more than pleased with the revenue produced by the sales taxes, and as a result they have failed to appropriate sufficient funds for adequate enforcement. A typical official observation on the administrative side of the sales tax is given in the following excerpt from the Biennial Report of the Department of Revenues 1936-38 for the State of Arkansas, pages 56-57.

Due to the great number of retailers required under the law to collect and remit the tax, there is found a considerable number who either neglect or fail to remit the tax as required by law, and it appears beyond a doubt that in many cases they do not collect the tax \* \* \* the law itself was inducive to evasions in the beginning, and is to some extent at the present time. Act 233 of 1935 allowed so many exemptions that it was hard to administer when everything worked together because of the loopholes wherein retailers could claim exemptions to which they were not entitled. In the passage of Act 154 of 1937, most of the exemptions were removed but still there were insufficient restrictions left around the exemptions allowed, especially exemptions of items sold for resale. Through this avenue the State has lost many thousands of dollars it should have collected. The principal other difficulty is a result of not having had previous experience in collecting a tax of such wide spread in that sufficient administrative force was not provided, especially there were not sufficient auditors allowed to audit a very large percent of the retailers who were collecting the tax.

It should be mentioned that many States compensate in an indirect manner the merchants who collect the sales tax. The retailer or merchant collects the tax on each individual sale but is permitted to pay the State on a gross sales basis. The reimbursement would be small in most cases, especially in those States that collect the tax through the use of mill tokens. In those States in which a bracket system is employed, however, it is conceivable that there would be considerable difference between the tax collected on individual sales and the tax collected on a gross basis.

For example, assume a State imposes a 2-percent tax, or 1 cent for all sales from 15 cents to 65 cents. A business selling low-priced articles collects the tax on 100 individual articles costing an average of 25 cents each. The total tax collected from the individuals is \$1. The tax settlement to the State, however, would be on the basis of gross sales of \$25 at the tax rate of 2 percent which would be 50 cents. The merchant in this particular case would have profited to the extent of 50 cents as the result of the transactions.

It is obviously impossible to estimate the amount of deductions permitted in the above manner but it is evident that the amounts involved conceivably could reach large proportions. These legitimate collection charges are, of course, never included with the costs of administering the tax.

Since the adoption of the first general sales tax and

<sup>8</sup>Sixteenth Biennial Report of the Tax Commission, 1936-38. Pp. 14A and 15A.

until 1939 only five of the 28 sales tax States permitted commissions to merchants and agents for the collection of taxes.<sup>9</sup> Three States, Kentucky, Missouri, and Ohio, allowed a 3-percent deduction, while Louisiana and Colorado<sup>10</sup> both permitted 5 percent commissions on sales and use taxes, although the latter State allowed only 3 percent deductions on service taxes. The States of Oklahoma and Alabama subsequently compensated the merchants at a 3-percent rate effective June 1, 1939, and October 1, 1939, respectively.

The approximate total of merchants' commissions allowed during the period of this study in the five States was \$11,549,800 or 3.1 percent of the total sales tax collections. These deductions are never reported as legitimate costs of collection; consequently, this fact has undoubtedly contributed much toward the popular belief that the collection and administrative costs of sales taxes are unusually low.

Inasmuch as these commissions properly should be included as tax collections in order to show actual collections, they have been added to the proper State totals. The estimated amount of these deductions attributable to the motor vehicle was determined by the relationship of the automotive portion to the total sales taxes contributed in the States permitting commissions to merchants. The amounts for each of the five States are shown in table 6.

TABLE 6.—Approximate amount of merchants' deductions and commissions permitted for period 1935-39<sup>1</sup>

Year	Colorado	Missouri	Louisiana	Ohio	Kentucky <sup>2</sup>	Total
1935	\$219,900			\$1,443,200	\$280,400	\$1,943,500
1936	327,000			1,739,400	216,200	2,282,600
1937	386,200	\$331,100		1,560,400	28,400	2,306,100
1938	382,300	548,200	\$97,800	1,229,100	22,700	2,280,100
1939	415,400	604,200	261,500	1,437,300	19,100	2,737,500
Total	1,730,800	1,483,500	359,300	7,409,400	566,800	11,549,800

<sup>1</sup> For fiscal years reported; Oklahoma and Alabama permitted commissions effective 1939 after close of fiscal period.

<sup>2</sup> Merchants retained 3 percent of gross receipts tax; clerks retain 2 percent of vehicle usage tax.

<sup>3</sup> Commission effective June 1937, estimated for 7 months.

#### COLLECTIONS SEGREGATED BY MAJOR BUSINESS CLASSIFICATIONS

Most of the sales tax laws require the administrative agency to keep records of the collections. As a result it was possible to obtain relatively satisfactory data for tax payments by major business classifications as follows:

- Apparel.
- Automotive.
- Contractors-consumers.<sup>11</sup>
- Farm and garden produce.
- Food.
- Furniture and fixtures.
- General merchandise.<sup>12</sup>
- Hotels, amusements, liquor stores.
- Lumber and building.
- Manufacturing, jobbing, trading.
- Professional and personal service.
- Public utilities.
- Unclassified.<sup>13</sup>
- All other.

<sup>9</sup> Kentucky permitted such commissions while its sales tax was in effect.

<sup>10</sup> 5 percent on sales and use taxes, 3 percent on service taxes.

<sup>11</sup> Includes construction, industrial, mercantile, governmental, public utility, private institutions, and miscellaneous individual consumers.

<sup>12</sup> Includes department and general stores, dry goods, hardware and paint, jewelry, sporting goods, five and ten, drug stores, etc.

<sup>13</sup> Includes amusements, hotels, newspapers, magazines, farm implements, liquor stores, recreation parlors, coal, fuel, ice, drug stores, hardware, theaters, barber shops, etc.

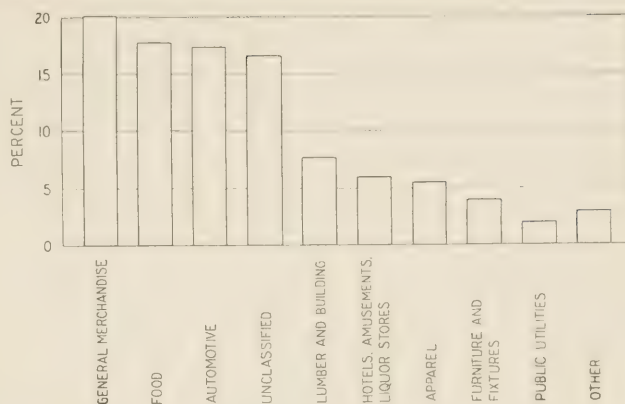


FIGURE 3.—PERCENTAGE DISTRIBUTION OF SALES TAX COLLECTIONS BY MAJOR BUSINESS CLASSIFICATIONS IN 1939.

These classifications were by no means uniform in the States, but they were sufficiently similar in their grouping to permit the arrangement of the data for general comparative purposes. While these classifications were generally maintained in most States, there were many differences in the States within a major business group. Obviously, it is practically impossible to obtain a standard classification of the thousands of businesses. Furthermore, a few States used more or less general classifications and it was impracticable to obtain the data in the desirable detailed form.

In order to establish the relative importance of the major business groups with regard to their contributions in sales taxes, the tax collections were compiled by the groups indicated above. Although data were obtained for a number of years for those States that have repealed as well as those that have retained a sales tax, it was believed little significance could be attached to data for States that no longer levy the tax. Consequently, the contributions by each major business group are presented for the fiscal years ending in 1939 for the present sales tax States. The detailed data by States for the various business classifications are given in table 7 and are summarized in table 8, which shows that in 1939 the largest sales tax contributions were made by the general merchandise group with 20.2 percent of the total. The second largest contribution was by the food group with 17.8 percent of the total. This group was closely followed by the automotive group with 17.4 percent of the total tax payments. The unclassified group represents 16.6 percent of the total. Payments by the remaining business groups range in importance from the lumber and building group with 7.7 percent down to the farm and garden produce group with an insignificant 0.1 percent. The relative importance of the several groups is also shown in figure 3.

The total collections by the 22 sales-tax States and the two States having motor-vehicle excises in 1939 amounted to \$421,941,000 or \$6.71 per capita.<sup>14</sup> The largest per capita payment was by the general merchandise group with \$1.35. Second largest was the food group with \$1.20 per capita, closely followed by the automotive and unclassified group representing \$1.17 and \$1.11, respectively. The remaining groups ranged from lumber and building with \$0.52 to contractors consumers and farm and garden produce with \$0.01 per capita.

<sup>14</sup> Based on United States Bureau of the Census total for 1940 of 62,875,746.





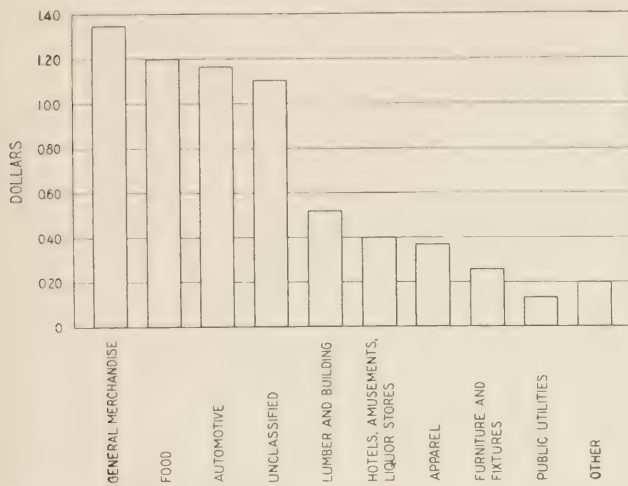


FIGURE 4.—PER CAPITA SALES TAX COLLECTIONS BY MAJOR BUSINESS CLASSIFICATIONS IN 1939.

The per capita total collections by geographic divisions varied from \$1.70 in the East South Central to \$11.71 in the Pacific region. A partial explanation of the low per capita figures for the South Atlantic and East South Central States is that the Maryland data in the former group and the Kentucky data in the latter group represent only motor-vehicle excise taxes and not general sales taxes (table 9).

The per capita payments of the automotive group totaled \$1.17 (fig. 4). The per capita payments varied from \$0.32 in the East South Central division to \$2.16 in the Pacific group.

#### TAX COLLECTIONS FROM AUTOMOTIVE GROUP LARGE

In this study the automotive group was more thoroughly investigated than the other groups in order to determine the exact nature of the taxable transactions. Data were obtained and compiled by the following businesses within the automotive group:

- New and used cars and dealers.
- Garages and repair shops.
- Accessories, tires, batteries, parts, etc.
- Filling and service stations, parking lots, auto hotels.
- Vehicles for hire, truck and bus lines.
- Other automotive.
- Motor-vehicle excise, original license fees, etc.
- Petroleum and automotive industries, refund gas sales.

In order to determine the total contributions resulting from new and used car sales, that group and the motor-vehicle excises should be combined. The separation of these related items was maintained because in all cases the excises were special taxes levied on the motor vehicle, whereas the others were general taxes. "Other automotive" includes collections from automotive stores and miscellaneous sales not included in other classifications.

It should be noted that the taxes paid by the petroleum and automotive industries are not directly paid by the motor-vehicle owner or user; however, they are eventually paid by the owner, inasmuch as these taxes are passed on to the ultimate user.

Refund gas sales represent taxes collected on sales of gasoline on which refunds of the gasoline tax itself are permitted. Presumably the use of such gasoline is for nonhighway purposes in which case the sales taxes

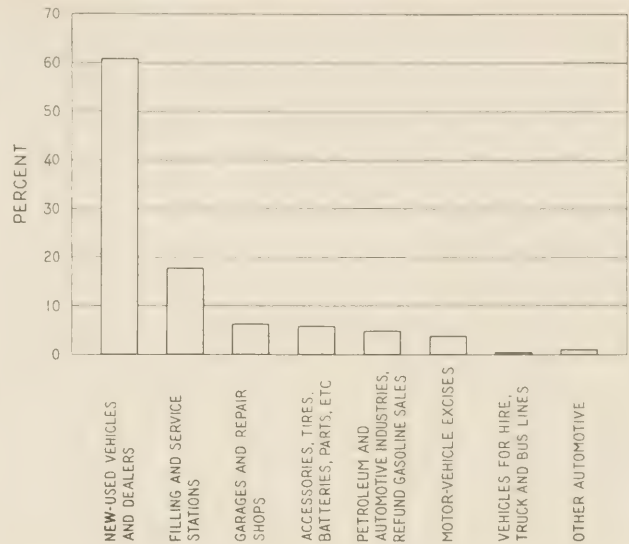


FIGURE 5.—PERCENTAGE DISTRIBUTION OF AUTOMOTIVE GROUP SALES TAXES BY MAJOR CLASSES, 1932-39.

collected should not be credited to the motor user. However, because of the close relationship to the automotive and petroleum industries and because it presents a special problem in some States, these tax payments have been included.

Although the business separation of the motor-vehicle group was generally maintained, some States failed to maintain a satisfactory breakdown and as a result it was necessary to resort to estimates. In such cases these were usually prepared with the assistance of the sales tax officials. In other cases, when only a particular year's or several years' data were not properly separated an estimate was prepared based on the previous or following year's data. As can be expected, the separations were not always maintained in a comparable manner and in a few instances a detailed segregation was not attempted in this study.

From the time of the imposition of the first general sales tax in 1932 through 1939, the total contributions in State sales taxes by the automotive groups were \$357,443,000, or 17.2 percent of the total sales tax collections. The taxes levied on the motor-vehicle and allied businesses have increased from less than \$200,000 in 1932 to an annual total in 1939 of more than \$73,000,000. The highest contribution in a single year was in 1937 when the motor-vehicle group paid \$75,703,000 in sales taxes, or 18.8 percent of the total collections.

The annual collections from taxes levied on motor-vehicle and allied automotive sales in each State since the first tax was initiated in 1932 are shown in table 10. It is anticipated that the total taxes of this kind for 1940 may exceed the previous high figure of 1937, due principally to the large sales of automobiles in 1940, an item which, as can be seen in table 11 and figure 5, accounted for almost two-thirds of the taxes collected on automotive sales.

All sections of the country represented in this study show approximately similar percentages of contributions of the total sales taxes credited to the automotive group. In 1939 the South Atlantic area showed the lowest percentage, with 14.4 percent of the total, and the West South Central area showed the highest, with 20 percent of the total (table 9).

TABLE 10.—Total sales taxes collected from motor vehicles and allied automotive sales, 1932-39

Geographic division and State	Taxes for fiscal year ending in—								
	1932	1933	1934	1935	1936	1937	1938	1939	Total
Middle Atlantic:	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
New York.....			4,330	1,707					6,037
New Jersey.....					1,650				650
Pennsylvania.....		1,368							1,368
Subtotal.....		1,368	4,330	1,707	650				8,055
East North Central:									
Ohio.....				6,638	10,225	11,331	6,659	9,358	44,211
Illinois.....		5,092	5,440	7,876	10,982	12,855	11,746	13,755	67,746
Michigan.....			5,771	7,258	10,136	12,753	9,856	10,257	56,031
Subtotal.....		5,092	11,211	21,772	31,343	36,939	28,261	33,370	167,988
West North Central:									
Iowa.....			6	1,439	2,008	2,414	2,477	2,373	10,717
Missouri.....			464	737	1,515	2,337	2,564	3,264	10,881
North Dakota.....					426	460	461	591	1,938
South Dakota.....					408	511	667	817	2,403
Kansas.....							1,850	1,505	3,355
Subtotal.....			470	2,176	4,357	5,722	8,019	8,550	29,294
South Atlantic:									
Maryland.....				485	901	594	397	512	2,889
West Virginia.....			85	506	1,097	1,258	1,077	957	4,980
North Carolina.....			782	995	1,324	1,473	1,432	1,435	7,441
Subtotal.....			867	1,986	3,322	3,325	2,906	2,904	15,310
East South Central:									
Kentucky.....				1,036	680	1,299	1,092	951	5,058
Alabama.....						267	472	582	1,321
Mississippi.....	191	336	497	549	753	883	828	975	5,012
Subtotal.....	191	336	497	1,585	1,433	2,449	2,392	2,508	11,391
West South Central:									
Arkansas.....					540	584	619	673	2,416
Louisiana.....					159	1,098	1,031	1,522	3,810
Oklahoma.....			956	1,394	1,443	2,825	3,053	2,416	12,087
Subtotal.....			956	1,394	2,142	4,507	4,703	4,611	18,313
Mountain:									
Idaho.....				280	429				709
Wyoming.....					242	335	321	273	1,171
Colorado.....				530	910	1,142	1,088	1,358	5,028
New Mexico.....			91	174	214	298	261	320	1,358
Arizona.....			130	194	331	431	418	354	1,858
Utah.....		2	303	432	475	512	518	542	2,784
Subtotal.....		2	524	1,610	2,601	2,718	2,606	2,847	12,908
Pacific:									
Washington.....					1,744	2,317	2,101	1,818	7,980
California.....			6,962	10,248	17,773	17,726	16,603	16,892	86,204
Subtotal.....			6,962	10,248	19,517	20,043	18,704	18,710	94,184
Total.....	191	6,798	25,817	42,478	65,365	75,703	67,591	73,500	357,443

<sup>1</sup> Data for three months only—July 1 to September 30, 1935.

<sup>2</sup> Estimated at 15 percent of total.

<sup>3</sup> Motor-vehicle excise 2 percent rate effective October 1, 1939; previously 1 percent.

<sup>4</sup> Includes motor-vehicle usage tax effective May 15, 1936.

Of the automotive sales taxes, the amount levied on the sales of motor vehicles constituted 64.5 percent of the total, or \$230,418,000. This amount was composed of \$216,619,000 in general taxes imposed on new and used car sales and \$13,799,000 of special excises levied on the motor vehicle (table 11 and fig. 5).

#### UPWARD TREND IN AUTOMOTIVE SALES TAX COLLECTIONS INDICATED

Filling and service stations, parking lots, and auto hotels were assessed \$63,309,000 or 17.7 percent of the total, while garages and repair shops paid \$22,311,000 or 6.2 percent of the total. Accessories, tires, batteries, and parts produced 5.7 percent of the total or \$20,360,000, and the amount attributable to the automotive and petroleum industries, including refund gasoline sales, was \$17,276,000 or 4.8 percent. Vehicles for hire and other automotive contributed \$968,000 or 0.3 percent and \$2,801,000 or 0.8 percent, respectively (table 11).

In the period of study the automotive portion of the

sales taxes averaged 17.2 percent of all sales taxes. The lowest percentage of the total, 13.9 percent, occurred in 1932 and the highest, 18.8 percent, in 1937. Table 12 and figure 6 indicate that there is apparently an upward trend in the motor-vehicle portions, but present conditions incident to national defense, including possible restrictions on the number of vehicles produced as well as increased taxes, make it difficult to forecast the future trend of the motor-vehicle portion of tax collections.

According to preliminary estimates by the Bureau of Foreign and Domestic Commerce, retail sales were 8 percent more in 1940 than in 1939. Certain commodity sales showed a considerable increase over the previous year, the most significant of which were sales in the automotive group, up 25 percent over 1939.

It has been noted earlier that 35.9 percent of the \$23,053,800 collections from use or compensating taxes from 1936 through 1939 was derived from automotive sales. By far the larger portion of the automotive total of \$8,276,300 was directly attributable to the

TABLE 11.—Total collections from sales taxes levied on motor vehicles and allied automotive sales, 1932-39

Geographic division and State	New-used vehicles, dealers	Garages, repair shops	Accessories, tires, batteries, parts	Filling-service stations, parking lots, auto hotels	Vehicles for hire, truck and bus lines	Other automotive	Motor-vehicle excise, original license fees, etc.	Petroleum and automotive industries, refund gas sales	Total
Middle Atlantic:	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
New York	4,335		1,493					1 209	6,037
New Jersey	411	44	81	111		3			7 650
Pennsylvania	1,026					342			1,368
Subtotal	5,772	44	1,574	111		345		209	8,055
East North Central:									
Ohio	31,220	3,291	2,203	6,862		635			44,211
Illinois	24,142	8,112	2,537	22,060		1,132		9,763	67,746
Michigan	32,368	3,238	3,151	17,274					56,031
Subtotal	87,730	14,641	7,891	46,196		1,767		9,763	167,988
West North Central:									
Iowa	5,394	1,400	921	2,314	22	79		3 587	10,717
Missouri	6,041		2,544	1,992	238	66			10,881
North Dakota	576	471	212	621	8	8	42		1,938
South Dakota	661	151	95	664		4	699	3 129	2,403
Kansas	1,991	286	307	691		80			3,355
Subtotal	14,663	2,308	4,079	6,282	268	237	741	716	29,294
South Atlantic:									
Maryland			233				2,228	3 428	2,889
West Virginia	453	399	144	725	264		2,995		4,980
North Carolina	4,461	167	720	1,975		118			7,441
Subtotal	4,914	566	1,097	2,700	264	118	5,223	428	15,310
East South Central:									
Kentucky	37	1,215	97	222	6	5	3,476		5,058
Alabama	412		788			121			1,321
Mississippi	1,335	788	200	2,468	67	15		139	5,012
Subtotal	1,784	2,003	1,085	2,690	73	141	3,476	139	11,391
West South Central:									
Arkansas	1,431	177	203	604	1				2,416
Louisiana	1,687		764					6 1,359	3,810
Oklahoma	1,952	282	840	1,835	209	89	4,359	2,521	12,087
Subtotal	5,070	459	1,807	2,439	210	89	4,359	3,880	18,313
Mountain:									
Idaho	583	35	28	33				30	709
Wyoming	358	570	39	177		27			1,171
Colorado	2,771	1,216	386	627	3	25			5,028
New Mexico	283	469	124	310	150	22			1,358
Arizona	1,135		723						1,858
Utah	2,338		149	267		30			2,784
Subtotal	7,468	2,290	1,449	1,414	153	104		30	12,908
Pacific:									
Washington	5,125		1,378	1,477					7,980
California	84,093							3 2,111	86,204
Subtotal	89,218		1,378	1,477				2,111	94,184
Total	216,619	22,311	20,360	63,309	968	2,801	13,799	17,276	357,443

1 Tax on lubricating oil.

2 Data for 3 months only; July 1 to September 30, 1935.

3 Tax on refund gas sales.

4 Includes garages and repair shops.

5 Tax on gasoline, \$402,000; on lubricating oil, \$26,000.

6 Includes tax on gasoline of \$759,000; on oil, \$40,500; oil-field equipment, \$248,500; and miscellaneous, \$180,000.

TABLE 12.—Taxes collected on automotive group sales, 1932-39

Year	Amount	Per vehicle <sup>1</sup>	Percentage of total taxes
1932	\$191,000	\$1.26	13.9
1933	6,798,000	2.00	14.1
1934	25,817,000	2.53	15.4
1935	42,478,000	3.09	15.4
1936	65,365,000	4.43	18.2
1937	75,703,000	5.15	18.8
1938	67,591,000	4.40	16.8
1939	73,500,000	4.59	17.4
Total	357,443,000		17.2

1 Based on private and commercial vehicle registration for the sales tax States including cars, trucks, busses, motorcycles, and trailers. From Public Roads Administration tables MV-1.

sales of motor vehicles. Tax collections on such sales amounted to \$7,026,600 or 84.9 percent of the automotive portion during that period. Table 13 shows the automotive portion of the use taxes by principal busi-

nesses. In the 4-year period during which such taxes have been in effect, the \$8,276,300 automotive portion represents 2.9 percent of the total of \$282,159,000 collected for all sales taxes on the automotive group during that same period.

TABLE 13.—Automotive portion of collections from use or compensating taxes, 1936-39

Type of business	Tax collections	
	Amount	Percent
Vehicles and dealers	\$7,026,600	84.9
Petroleum and automotive industries	968,300	11.7
All other	281,400	3.4
Total	8,276,300	100.0

Although it was possible to segregate the motor-vehicle portions of the sales tax payments in many

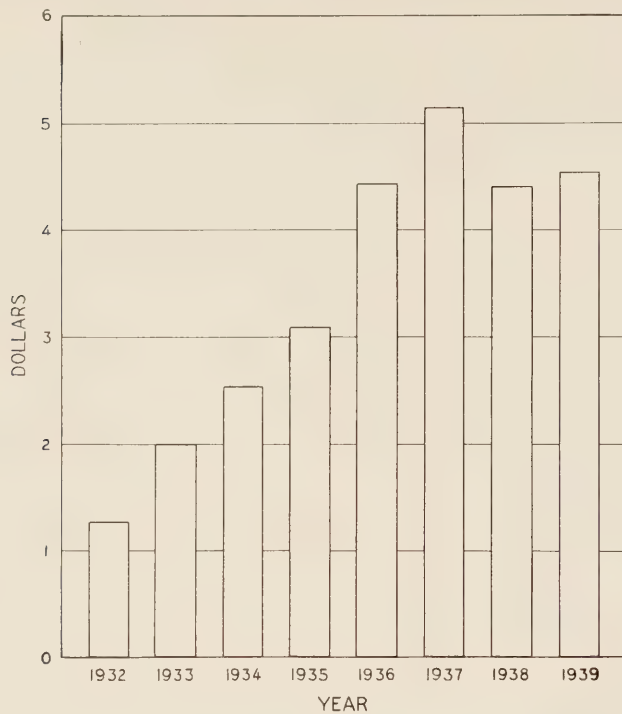


FIGURE 6.—COLLECTIONS PER VEHICLE FROM THE AUTOMOTIVE GROUP SALES TAXES, 1932-39.

States, the records in other States were such as to prevent a clear separation of the items desired. Consequently, the sales tax payments often do not include the contributions by certain related groups, or else include only a part of the payments by these groups.

The sales tax receipts generally excluded from the automotive classification are:

1. Payments for motor-carrier and general trucking operations, usually classed with the public utility or transportation groups and not readily separable.

2. The portion of department-store sales taxes attributable to the sales of tires and tubes, parts, batteries, accessories, etc. This is particularly true in the case of chain stores and mail order houses. This item undoubtedly is considerable and it has been variously estimated to approximate from 10 to 20 percent of the total sales of such concerns.

3. Sales taxes collected by tourist camps, auto hotels and courts, outdoor advertising concerns and others that cater primarily to the motor user. In many instances these items are included with other groups and no attempt was made to obtain their contributions.

4. Sales taxes collected by joint businesses such as combination units of store and filling station, lunch room and service station, etc. These are usually classed according to major business and are in other than the automotive groups. No estimate of the portion attributable to the motor vehicle was possible.

5. Other related payments such as those by road contractors for materials and supplies used in construction work, and oil well supply and equipment purchases by the oil industry upon which sales taxes were paid. These sales tax items were usually included in the contractor-consumer or in the unclassified group.

There are undoubtedly other items that might be attributed to the highway users or allied businesses or industries, but those mentioned above are sufficient to indicate that the amounts shown in this study as paid

by the automotive group represent a conservative estimate of the total contributions of the highway-users' group to sales taxes on automotive goods and services.

It was not possible, of course, to select those business classifications that include only automotive goods and services. In some States, the motor-vehicle classification included bicycle and aircraft dealers, wagon manufacturers, and farm tractor sales. However, those States using such classifications estimated a relatively insignificant amount creditable to these businesses. Just as there are joint business enterprises such as filling station and grocery store which were not included, there are undoubtedly similar businesses whose tax payments rightly should be credited to other than the automotive group. Such payments are probably more than offset by those of similar character creditable to the automotive group.

#### AUTOMOTIVE SALES TAXES 12.7 PERCENT AS GREAT AS HIGHWAY-USER TAXES IN 1939

The yield from State highway-user taxes in 1938 for the United States was \$1,174,887,000 or \$38.30 per vehicle. For the same period the sales taxes paid by the automotive group were \$67,591,000 or \$2.20 per vehicle (table 14). In 1939 highway-user taxes increased to \$1,249,356,000 or \$39.13 per vehicle and automotive sales taxes rose to \$73,500,000 or \$2.30 per vehicle.

A more significant comparison is obtained when data are presented for sales tax States only. The collections for highway-user taxes and automotive sales taxes in 1938 were \$541,528,000 or \$35.22 per vehicle, and \$67,591,000 or \$4.40 per vehicle, respectively (table 15). Corresponding figures for 1939 (table 16) show motor-user taxes of \$578,659,000 or \$36.16 per vehicle and automotive sales taxes totaling \$73,500,000 or \$4.59 per vehicle. Thus, the yield from automotive sales taxes was 12.5 percent and 12.7 percent, respectively, as great as the highway-user taxes for 1938 and 1939.

The per-vehicle sales tax payments in 1938 ranged from a low of \$2.30 in the South Atlantic group to \$5.83 in the Pacific States. Illinois reported the highest per-vehicle collection with \$6.49. In 1939 the per-vehicle automotive sales tax payments were again lowest in the South Atlantic division with \$2.16 per vehicle, and the highest were in the East North Central States with \$6.02. The highest per-vehicle collection was in Illinois with \$7.31 (table 14). It should be noted that these per-vehicle figures are averages for all registered vehicles. Actually, a significant number of vehicle owners pay much higher amounts than these, in taxes incurred particularly in the purchase of vehicles. In such cases the tax on this item alone, exclusive of other automotive sales taxes paid, will amount to at least four or five times as much as the per-vehicle figures cited above.

Although this study was particularly designed to include the sales taxes levied by the various States, the Federal excises imposed on motor vehicles, parts and accessories, tires and tubes, oil, and gasoline, are also of interest for comparative purposes because such excises have far exceeded in amount those levied by the States. These excises are, in effect, identical to the sales taxes levied by the States. Even though the Federal excises are generally levied on manufacture or production, it is recognized that these taxes are eventually paid by the motor-vehicle owner.

The total amounts collected by these excises have

TABLE 14.—Comparison of highway-user tax and sales tax revenue in States levying sales taxes in 1938 and 1939

Geographic division and State	Taxes collected in 1938				Taxes collected in 1939			
	Highway-user taxes		Automotive sales taxes		Highway-user taxes		Automotive sales taxes	
	Amount	Per vehicle	Amount	Per vehicle	Amount	Per vehicle	Amount	Per vehicle
East North Central:	\$1,000		\$1,000		\$1,000		\$1,000	
Ohio	73,655	\$37.11	6,659	\$3.36	79,613	\$39.22	9,358	\$4.61
Illinois	58,479	32.31	11,746	6.49	63,752	33.89	13,755	7.31
Michigan	48,966	31.49	9,856	6.34	52,378	32.11	10,257	6.29
Subtotal	181,100	33.85	28,261	5.28	195,743	35.32	33,370	6.02
West North Central:								
Iowa	25,568	30.80	2,477	2.98	27,215	31.37	2,373	2.74
Missouri	21,567	24.72	2,564	2.94	23,254	25.45	3,264	3.57
North Dakota	3,834	21.86	461	2.63	4,372	24.59	591	3.32
South Dakota	6,243	31.19	667	3.33	6,191	29.24	817	3.86
Kansas	15,158	26.05	1,850	3.18	15,855	27.26	1,505	2.58
Subtotal	72,370	27.21	8,019	3.02	76,887	27.94	8,550	3.11
South Atlantic:								
Maryland	14,608	36.43	397	0.99	15,532	36.01	512	1.19
West Virginia	14,449	51.61	1,077	3.85	15,852	54.52	957	3.29
North Carolina	31,772	54.66	1,432	2.46	34,084	54.96	1,435	2.31
Subtotal	60,829	48.19	2,906	2.30	65,468	48.78	2,904	2.16
East South Central:								
Kentucky	16,595	39.96	1,092	2.63	17,990	41.04	951	2.17
Alabama	18,094	59.00	472	1.54	19,675	59.43	582	1.76
Mississippi	14,311	65.86	828	3.81	13,992	56.27	975	3.92
Subtotal	49,000	52.17	2,392	2.55	51,657	50.74	2,508	2.46
West South Central:								
Arkansas	13,001	56.26	619	2.68	13,885	54.95	673	2.66
Louisiana	21,530	62.99	1,031	3.02	22,865	64.40	1,522	4.29
Oklahoma	21,153	36.92	3,053	5.33	22,043	38.53	2,416	4.22
Subtotal	55,684	48.60	4,703	4.10	58,793	49.83	4,611	3.91
Mountain:								
Wyoming	3,299	36.16	321	3.52	3,450	36.71	273	2.91
Colorado	10,603	31.61	1,088	3.24	11,358	32.79	1,358	3.92
New Mexico	5,910	49.47	261	2.18	6,422	51.97	320	2.59
Arizona	5,485	40.99	418	3.12	5,767	42.27	354	2.59
Utah	4,584	35.81	518	4.05	4,864	36.32	542	4.05
Subtotal	29,881	36.98	2,606	3.23	31,861	38.19	2,847	3.41
Pacific:								
Washington	18,882	34.76	2,101	3.87	20,761	37.15	1,818	3.25
California	73,782	27.69	16,603	6.23	77,489	27.92	16,892	6.09
Subtotal	92,664	28.88	18,704	5.83	98,250	29.47	18,710	5.61
Total	541,528	35.22	67,591	4.40	578,659	36.16	73,500	4.59
United States total	1,174,887	38.30	67,591	2.20	1,249,356	39.13	73,500	2.30

<sup>1</sup> Does not include "Special titling taxes" reported in tables MV-2, 1938 and 1939, Public Roads Administration. These taxes are included here with automotive sales taxes.

TABLE 15.—Comparison of total collections from highway-user taxes and automotive sales taxes by geographic divisions in 1938<sup>1</sup>

Geographic division	Highway-user taxes	Automotive sales taxes		Amount per vehicle <sup>2</sup>	
		Amount	Percentage of highway-user taxes	Highway-user taxes	Sales taxes
East North Central	\$1,000	\$1,000	15.6	\$33.85	\$5.28
West North Central	181,100	28,261	11.1	27.21	3.02
South Atlantic	60,829	2,906	4.8	48.19	2.30
East South Central	49,000	2,392	4.9	52.17	2.55
West South Central	55,684	4,703	8.4	48.60	4.10
Mountain	29,881	2,606	8.7	36.98	3.23
Pacific	92,664	18,704	20.2	28.88	5.83
Total	541,528	67,591	12.5	35.22	4.40

<sup>1</sup> For the 22 sales tax States and the 2 motor-vehicle excise States.  
<sup>2</sup> For private and commercial vehicles only.

increased steadily from \$84,294,000 in the calendar year 1932, when the portion paid by highway users is estimated to have been \$75,320,000 to the 1937 total of \$359,948,000, when the highway users' portion was estimated to have been \$324,494,000. Business conditions were such that the highway portion of the 1938

TABLE 16.—Comparison of total collections from highway-user taxes and automotive sales taxes by geographic divisions in 1939<sup>1</sup>

Geographic division	Highway-user taxes	Automotive sales taxes		Amount per vehicle <sup>2</sup>	
		Amount	Percentage of highway-user taxes	Highway-user taxes	Sales taxes
East North Central	\$1,000	\$1,000	17.0	\$35.32	\$6.02
West North Central	195,743	33,370	11.1	27.94	3.11
South Atlantic	65,468	2,904	4.4	48.78	2.16
East South Central	51,657	2,508	4.9	50.74	2.46
West South Central	58,793	4,611	7.8	49.83	3.91
Mountain	31,861	2,847	8.9	38.19	3.41
Pacific	98,250	18,710	19.0	29.47	5.61
Total	578,659	73,500	12.7	36.16	4.59

<sup>1</sup> For the 22 sales tax States and the 2 motor-vehicle excise States.  
<sup>2</sup> For private and commercial vehicles only.

revenue decreased to \$266,130,000 but rose again in 1939 to \$322,221,000. Total collections of \$453,872,000 in 1940 exceeded those for any previous year, and were greater than those of the previous 1937 peak by more than 26 percent. It is estimated that the highway-users portion of these 1940 collections amounted to

TABLE 17.—Total collections from Federal excise taxes relating to motor vehicles and estimated highway users' share, 1932-40<sup>1</sup>

Calendar year	Collections from taxes on—								Total collections	
	Gasoline		Lubricating oil		Motor vehicles and parts				Total	Highway users' share <sup>4</sup>
	Total	Highway users' share <sup>2</sup>	Total	Highway users' share <sup>3</sup>	Tires and tubes	Automobiles and motorcycles	Trucks	Parts and accessories		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
1932 <sup>5</sup>	62,840	56,870	7,068	4,064	7,545	4,221	720	1,900	84,294	75,320
1933	181,126	163,919	22,290	12,817	23,836	22,476	3,047	4,443	257,218	230,538
1934	170,109	153,949	24,844	14,658	24,704	31,534	5,261	5,886	262,338	235,992
1935	172,263	155,898	28,819	17,003	28,102	42,263	6,674	7,019	285,140	256,959
1936	186,542	168,821	28,985	16,522	38,242	56,475	8,045	8,748	327,037	296,853
1937	203,025	183,738	33,681	17,514	40,088	64,722	8,812	9,620	359,948	324,494
1938	200,881	181,797	30,495	15,858	26,772	29,405	5,230	7,068	299,851	266,130
1939	215,217	198,410	29,837	15,515	41,131	51,063	7,145	8,957	353,350	322,221
1940	281,654	259,657	34,420	17,898	45,091	71,275	9,285	12,147	453,872	415,353
Total	1,673,657	1,523,059	240,439	131,849	275,511	373,434	54,219	65,788	2,683,048	2,423,860

<sup>1</sup> Data supplied by U. S. Bureau of Internal Revenue.

<sup>2</sup> Highway users' share estimated by Public Roads Administration.

<sup>3</sup> Based on material in Automobile Facts and Figures, 1941, published by the Automobile Manufacturers Association.

<sup>4</sup> Sum of columns 3, 5, 6, 7, 8, and 9.

<sup>5</sup> Federal excises effective June 21, 1932.

approximately \$415,353,000 or more than the total collections for any previous year. A summary of the annual collections since 1932 is shown in table 17.

With recent increases in the taxation of these motor-vehicle items to help finance the National Defense program, it is probable that, for the present fiscal year, the proceeds from Federal excises may exceed one-half billion dollars, resulting in part from the increased rates and in part from improved economic conditions. A comparison of the old schedule of rates and the new schedule applying to each commodity is shown in table 18.

TABLE 18.—Comparison of Federal excise rates in effect before and after July 1, 1940

Item	Rates in effect—	
	Before July 1, 1940	After July 1, 1940
Tires.....	2½ cents per pound.....	2½ cents per pound.
Tubes.....	4 cents per pound.....	4½ cents per pound.
Trucks.....	2 percent.....	2½ percent.
Automobiles and motorcycles.....	3 percent.....	3½ percent.
Parts and accessories.....	2 percent.....	2½ percent.
Gasoline.....	1 cent per gallon.....	1½ cents per gallon.
Lubricating oil.....	4 cents per gallon.....	4½ cents per gallon.

The data obtained from this analysis indicate that the total tax contributions by highway users cannot be measured alone by the direct highway-user taxes such as the gasoline taxes and registration fees. In the 8-year period from 1932 through 1939 the collections from State taxes on automotive sales amounted to more than 357 million dollars or 3.4 percent of the total of all State and Federal highway, motor-vehicle excise, and general sales taxes on automotive goods and services (table 19). In all States levying sales taxes, the revenue obtained from the taxes are generally used for other than highway purposes. Only the proceeds of the West Virginia certificate of title excise and the North Dakota highway privilege tax are used for highway purposes. These revenues constitute considerably less than 1 percent of the total sales tax collections from the automotive group.

In none of the remaining States is any of the sales tax revenue used for highway purposes. Increasing attention has been directed in recent years to the problem of the use of highway-user taxes for other than

highway purposes. Since there has also been an annually increasing levy on the highway user in connection with his purchase of automotive goods, it is evident that he is increasingly contributing to other governmental functions not only by that portion of his highway-user taxes which are not expended for highway purposes but also by those State sales taxes paid in connection with the purchase of automotive goods. A summation of these items is given in table 20 and illustrated in figure 7 which shows that from 1932 through 1939 the total of these taxes used for other than highway purposes amounted to \$1,458,194,000, of which 24.3 percent resulted from sales taxes on automotive goods. In this figure the small amount of State automotive sales taxes used for highway purposes (\$3,037,000) is included with the State highway-user taxes used for highway purposes.

TABLE 19.—Tax contributions by motor-vehicle owners, 1932-39

Year	Annual collections from—			
	Federal excises <sup>1</sup>	State highway-user taxes <sup>2</sup>	State automotive sales taxes	Total
	\$1,000	\$1,000	\$1,000	\$1,000
1932	<sup>3</sup> 75,320	838,412	191	913,923
1933	230,538	820,719	6,798	1,058,055
1934	235,992	883,799	25,817	1,145,608
1935	256,959	950,971	42,478	1,250,408
1936	296,853	1,066,341	65,365	1,428,559
1937	324,494	1,176,964	75,703	1,577,161
1938	266,130	1,174,887	67,591	1,508,608
1939	322,221	1,249,356	73,500	1,645,077
Total	2,008,507	8,161,449	357,443	10,527,399
Percent	19.1	77.5	3.4	100.0

<sup>1</sup> From table 17.

<sup>2</sup> Public Roads Administration tables MV-2, G-1, and MC-1.

<sup>3</sup> Federal excises effective June 21, 1932.

The highway user is evidently contributing annually to the support of governmental functions other than highways to a greater extent than is ordinarily realized. In the past the amount of such contributions has increased rather than decreased. From 1932 through 1939 the diversion of State highway-user taxes to other than highway purposes has increased from 9.2 percent to 14.5 percent of the total State highway-user taxes. Increased collections from State sales taxes in the period studied have also resulted in a larger amount of such

TABLE 20.—Sales taxes collected on automotive goods and highway-user taxes that were used for other than highway purposes, 1932-39

Year	State automotive sales taxes	State highway-user taxes not used for highways <sup>1</sup>	Total
	\$1,000	\$1,000	\$1,000
1932	191	76,747	76,938
1933	6,798	91,577	98,375
1934	25,817	122,150	147,967
1935	42,301	147,143	189,444
1936	64,636	169,344	233,980
1937	74,859	161,413	236,272
1938	66,894	2 155,942	222,836
1939	72,910	2 179,472	252,382
Total	354,406	1,103,788	1,458,194

<sup>1</sup>The "highway privilege tax" of North Dakota totaling \$42,000, and West Virginia certificate of title excise amounting to \$2,985,000 are not included.

<sup>2</sup>Tables DF, Public Roads Administration, adjusted for motor-vehicle excises in South Dakota, Maryland, and Kentucky.

taxes on the highway user being diverted to governmental functions other than highways.

#### SUMMARY

In addition to the millions of dollars paid annually by motor-vehicle owners in the form of direct highway-user taxes, these same motor-vehicle owners paid more than 350 million dollars during the period 1932-39 in general sales and use taxes and motor-vehicle excises occasioned directly by their ownership and operation of motor vehicles.

Collections from sales taxes on automotive goods were exceeded in 1939 only by collections from taxes on food and general merchandise. Since many States have come to rely so greatly on sales tax collections, attention should be given to the extent to which these sales taxes constitute an additional tax burden on a specific group of the population.

The revenue obtained by the State governments from such sales taxes are almost entirely used for non-highway purposes. The highway user, therefore, is contributing to the support of general government not only through the ordinary taxes which he pays such as property and income taxes, but also through taxes which result directly from his operation of a motor vehicle. Such contributions are derived from those portions of the direct highway-user taxes, such as motor-vehicle fees and motor-fuel taxes, which are used for other than highway purposes and from those portions of the sales taxes, substantially all of which go to

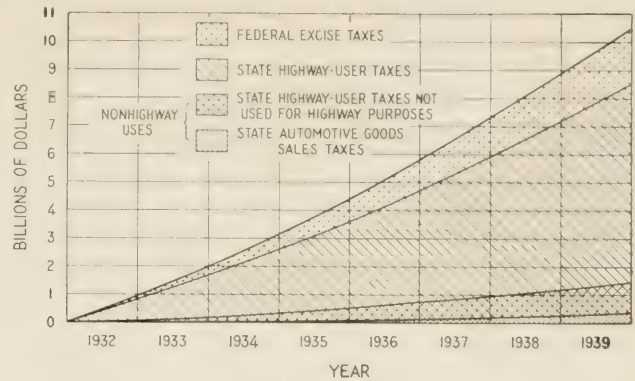


FIGURE 7.—Total Cumulative Taxes on Highway Users, 1932-39.

the support of general government, which result from motor-vehicle operation.

Any taxation program that affects the motor-vehicle operator primarily or solely because of his operation of a motor vehicle must be carefully analyzed with reference to the motor-vehicle operator's ability or willingness to pay. While there is no indication that the present tax schedules have reached a point where increased rates will reduce motor-vehicle use and possibly reduce the total revenues, this possibility must always be considered.

It is evident that an analysis of the effect of any tax schedule or governmental policy on the motor-vehicle owner must give full consideration to all taxes to which the motor-vehicle owner is already subject. Similarly, the effect of any changes in tax rates must be carefully watched in order to determine the motor-vehicle owner's willingness and ability to pay at increased rates and the effect which his reaction may be expected to have on total governmental revenues.

The data obtained in this study indicate the relative importance of sales taxes in the governmental economy of almost half of the States, and the portion of these sales taxes that constitute additional levies on the highway user as an immediate result of his ownership and use of a motor vehicle.

Present trends indicate the possibility of the increased use of and dependence on the sales tax as a source of revenue. Sales tax officials anticipate the possible decrease in the importance of the property tax as a revenue source and the substitution thereof of such taxes as the sales tax. This possibility further emphasizes the need for careful examination of the tax structure as it affects the highway user.











