— usually by computer, but sometimes by manual calculator — is the rule. Not all states attempt field audit on what might reasonably be called a large scale, but most place some reliance on it. About half the states have tried to devise criteria for maximum audit productivity by making sample audit analyses of vendors in different categories and of varying sizes, but not all have succeeded. California, Florida, Georgia, Hawaii, New Jersey, Rhode Island, and Wash-

Table 17

Selected Factors Relating to Delinquency and Audit of State Sales and Use Taxes by State[a]

Fiscal Year 1968 or 1969

State	Delinquents after first notice, percent of all accounts	Sales tax accounts per auditor/examiner	Percent of sales tax accounts audited each year	Recovery from audit, percent of total collections
Alabama	7.0	460	12.5	1.4
Arizona	1.0	2,130	3.0	8.0
Arkansas	n.a.	1,270	n.a.	5.0
California	3.7	560	7.0	1.8
Colorado	2.5	1,450	5.0	5.0
Florida	2.4	2,640	0.8	0.8
Georgia	2.0	500	20.0	3.6
Hawaii	n.a.	n.a.	2.0	2.4
Idaho	4.5	1,000	1.0	1.0
Indiana	n.a.	n.a.	3.0	n.a.
Iowa	6.0	770	1.5	—
Kansas	2.0	2,000	1.0	1.0
Kentucky	2.5	n.a.	1.0	0.4
Louisiana	4.0	1,360	4.0	0.5
Maine	0.7	700	6.6	1.6
Maryland	4.2	610	5.0	1.8
Massachusetts	n.a.	1,700	(b)	1.5
Michigan	n.a.	350	1.0	1.0
Minnesota	4.0	560	n.a.	2.7
Mississippi	1.5	830	5.0	1.8
Missouri	n.a.	480	2.5-3.0	2.5-3.0
Nebraska	1.1	3,840	0.6	0.5
Nevada	5.7	330	7.9	0.9
New Jersey	10.0	n.a.	2.0	2.5
New York	12.0	710	5.0	2.0
North Carolina	n.a.	n.a.	4.4	1.1
North Dakota	3.0	1,780	15.0	1.5
Ohio	2.5-3.0	1,050	0.8	1.1
Oklahoma	10.0	1,380	7.0	2.0
Pennsylvania	8.6	420	2.0	1.3
Rhode Island	8.0	450	7.5	1.8
South Carolina	3.1	940	3.0	1.1
South Dakota	5.0	2,430	1.9	0.5
Utah	6.7	750	6.7	1.5
Vermont	n.a.	n.a.	n.a.	n.a.
Virginia	3.5-4.5	480	n.a.	n.a.
Washington	n.a.	1,000	4.0	1.5
Wisconsin	2.8	1,600	1.0-2.0	1.0
Wyoming	n.a.	6,100	0.3	0.3

n.a. — not available.

a. Information was not available for the following states with sales and use taxes: Connecticut, Illinois, New Mexico, Tennessee, Texas, West Virginia.

b. Very small number.

Source: Questionnaires to state taxing officials.

ington make extensive use of the results. Pennsylvania chooses fully three-fourths of the accounts to be audited on this basis. About a third of the states program computers to "kick out" returns for which exemption or total sales data fall outside industrial and size norms; rejected returns are double-checked and the accounts are likely to be field-audited.

The number of sales tax accounts per auditor ranges from about 350 (in Nevada and Michigan) to well over 2,000 (in Florida, Nebraska, and South Dakota). As may be seen in Table 17, there is a corresponding range in the number of accounts individual states manage to audit each year, and a rough correlation between men available and the number covered. The general practice is to concentrate on firms with the largest sales volume, and a small proportion of total accounts may represent a substantial share of total sales.

Revenue recovered from audit typically amounts to one or two percent of aggregate sales tax collections. But audit yields benefits beyond the amount of revenue recovered directly, as indicated by Maryland's chief sales and use tax administrator:

> Failure of vendors to keep proper records continues to be a problem, especially with smaller accounts — many of whom are not qualified to maintain their own records and cannot afford to acquire accounting assistance. Audits of small vendors in certain businesses have permitted us to better acquaint these taxpayers with the collection of the tax and establish a system of recordkeeping. In many instances this has been beneficial, so far as compliance with the law is concerned.

One aspect of field audit—and a problem mentioned by many administrators — is the vendor's responsibility to prove that sales he has reported as exempt were in fact exempt under the law. A California official's comment is representative:

> Exemptions present problems to both the seller and the state since the seller is required to classify sales as exempt or taxable and retain evidence supporting exemption, while the state incurs expense when these exemptions are verified through field audits of sellers' records. This audit expense is more than offset by additional tax disclosed by audits.

Recruiting and training competent auditors is a problem in several states. The frequency and thoroughness of field audit depend, of course, largely upon the size of staff for which the legislature will pay. From the standpoint of firms subjected to audit, it is of the utmost importance that field men be thoroughly acquainted with the type of accounting methods they will encounter in the course of their work. Complaints from large businesses in particular suggest that auditors do not always meet such standards.

What problems are relatively unimportant? Setting up new accounts and closing old ones, casual sales, and taxpayer complaints appear to present few serious difficulties.

Costs of Administration. As a share of tax collected, it costs most states from .7 percent to about 1.5 percent to administer the tax. The higher the tax rate, of course, the lower will be the state's cost in proportion to revenue. It should be kept in mind that vendors also incur collection costs and that total costs of administration and compliance are perhaps twice the amount borne by the states alone.

Use Taxes and the Registration of Interstate Businesses

Special circumstances surround state administration of the tax on sales in interstate commerce. Use tax enforcement is subject to legal constraints of a sort not encountered in the administration of the sales tax, because the states' collection practices involve complicated questions concerning jurisdiction over businesses beyond their borders.

While buyers always bear legal responsibility for paying use tax, administrators' attempts to collect the tax directly from resident consumers would be ineffective as well as prohibitively expensive. Thus except for such consumer purchases as automobiles, which must be registered when brought into a state, the tax must be collected by the out-of-state vendor if it is to be collected at all. Sales to business purchasers are another matter – in some states, at least – because resident businesses can be watched over as sales tax registrants and allowed to pay tax directly on their purchases from outside the state. (See Table 16 for a list of the states allowing businesses to make direct payment.)

Many out-of-state (or "foreign") businesses making sales to residents will register voluntarily, collect tax, and remit it to state officials.[13] Others, however, will register only when the law leaves no choice in the matter.

But "the law" concerning state authority to require foreign vendors to collect use tax has evolved fitfully – on the basis of Supreme Court decisions or, at times, Congressional action – now broadening state jurisdiction, now restricting it. In the absence of rigorously clearcut guidelines, a few states have seemed to transcend the limits of established practices to the point where interstate businesses have felt they were being discriminated against in favor of local vendors – in violation of interpretations of the Interstate Commerce Clause of the Federal Constitution. The states, on the other hand, wish not only to collect whatever use tax revenue is due, but also to protect local vendors from tax-free, out-of-state competition.

Much of the difficulty arises from the absence of uniform practices from one state to another. The two alternative approaches to obtaining greater uniformity – Federal stardards or voluntary cooperation among the states – can be best understood in the light of an outline of present state authority.

Circumstances in Which Vendor Collections Is Required. What activities constitute a strong enough link between a foreign business and its customers within a state for state tax authorities to require the business to register and collect use tax on all sales to residents?

(1) A multi-state company with outlets in a given sales-tax state must collect tax when an out-of-state branch makes deliveries into the state in response to mail orders.[14] The location of *business facilities* in the state establishes a nexus adequate to require registration.

(2) According to a court decision in 1944,[15] a company employing one or more *salesmen* to solicit orders in a state must register – even though the salesmen may work only occasionally in the state.

(3) In 1960 this was extended to include *independent brokers* or distributors serving as mere conduits of orders for the out-of-state company's products.[16]

13. Maryland and Rhode Island, among other states, rely largely or entirely on such voluntary registration.
14. *Nelson v. Sears Roebuck and Co.*, 1941.
15. *General Trading Co. v. California State Tax Commission.*
16. *Scripto, Inc. v. Carson.*

On the other hand, advertising alone fails to create a link sufficient for the state to be able to require registration, whether the advertising takes place via the mass media or by distribution of catalogs by mail.[17]

In practice only a small fraction (estimated in 1964 to be under a tenth[18]) of the companies with multi-state markets register with tax authorities in states where their only link with residents is through salesmen actively soliciting orders. In other words, firms other than those with branches in a state are not likely to register or, for that matter, to come to the attention of the state. Firms doing a large volume of business with residents represent the exceptions to the pattern, because with them the state will be assured of covering its enforcement costs (and quite probably much more). Consequently, the states have concentrated registration and enforcement efforts on foreign firms with the largest in-state sales volume. This concentration is in itself a form of discrimination against large firms, however necessary it may be from an administrative standpoint.

Large firm or small, the troublesome aspect of collecting use tax as opposed to sales tax lies in the number of returns a business registered in several states must file. Differences in coverage — particularly coverage of machinery sold by industrial retailers, whose markets typically cross state lines — from state to state are the rule. A use tax registrant must learn, therefore, the statutes of as many states as require him to register and must, of course, file a corresponding number of returns at regular intervals.

Revisions under Consideration. Legislation now pending in Congress would impose sharp restrictions on state jurisdiction with respect to out-of-state jurisdors. Under one proposal[19] only businesses with physical facilities or inventories in a state could be required to register for collection of use tax. Suppliers of businesses in other states would be relieved of the responsibility for collecting tax if their customers could provide sales-tax registration numbers. All states would be required to grant credits for sales tax paid on an item purchased elsewhere. (Most states already grant such credits.)

The states view the prospect of Federal standards with something less than equanimity. Several responded to the threat in 1967 by forming the Multistate Tax Commission, which now numbers more than 30 full or associate member states. Members agree to adhere to uniform provisions for state taxation of income and sales in interstate commerce. The Commission has become the primary agent behind the simplification of use tax compliance requirements.

17. Under the controversial *National Bellas Hess, Inc. v. Illinois* decision of 1967.

18. Special Subcommittee on State Taxation of Interstate Commerce, *op. cit.*, p. 722.

19. The Interstate Taxation Act, also known as the Rodino Bill. For a full discussion of this and other issues in state taxation of multi-state business see Proceedings of a Tax Foundation Seminar on "Taxation of Interstate Business," held in Chicago, April 16-17, 1970.

VII.

The Tax as Used by Local Governments*

Local sales taxes are by and large a postwar phenomenon. Before 1945 only New York and New Orleans had imposed them successfully, while in 1970 they are levied in 23 states by more than 3,500 local governments, including roughly 3,000 municipalities, about 500 counties, and even a few special districts. (See Table 18.) Since 1965, moreover, the pace of local enactments, hastened by new enabling laws in 12 states,[1] has stepped up noticeably.

Both the initial impetus for local sales taxation and the current wave of activity have stemmed from a search by local governments — particularly municipalities[2] — for a supplement to the property tax.

The Revenue Significance of Local Sales Taxes

For local governments as a whole, property tax revenue dwarfs collections from all other taxes combined, and sales taxes appear to be relatively unimportant. Property taxes accounted for an impressive $27 billion in 1968, or 86 percent of local tax revenue and nearly two-thirds of all revenue raised by localities themselves for general programs (Table 19). By contrast, the $1 billion garnered by local sales taxes amounted to less than 4 percent of total tax revenue, and less than 3 percent of the money localities raised for general purposes.

A somewhat different picture emerges, however, when local tax revenue is classified by type of local government (Table 20). In contrast to virtually total reliance by counties and special districts on property taxes, *cities* and *towns* collect nearly a third of their tax revenue from levies on income, retail or selective sales, and other non-property sources. Sales taxes alone account for nearly 10 percent of municipal collections. Indeed, of the $1,204 million in local sales tax collections for 1968, municipalities raised $1,090 million.

Sales Taxes in City Tax Structures. While sales tax collections amount to about a tenth of total city tax revenue, this share refers to all 18,000 municipalities and tells little about the importance of the tax in sales-tax cities as such.

As of April 1970, the tax was in effect in 3,063 cities, or about one of every six (Table 21). Although the great majority of sales-tax cities are relatively small (since small cities as a group greatly outnumber large), large cities are more likely to use the tax. The portion of cities using the tax is more than twice as great for cities of 50,000 and over as for smaller municipalities. Moreover, fully half of the cities with populations above 300,000 employ local sales taxes.

The revenue significance of the tax for cities of different sizes, as well as for individual large cities, is illustrated in

* Since the analysis for this study was prepared, Kansas has authorized its counties to levy sales taxes of ½ or 1 percent; this action brings to 25 the number of states authorizing one or more local units to levy sales taxes.

1. This figure excludes authorization in Arkansas and Minnesota which are restricted to one or a few localities. Twenty-two states have general authorizations, but local taxes are as yet levied in only 21 of them.
2. The term "municipalities" is synonymous with "cities" or "cities and towns," as used here. Technically, as defined by the Bureau of the Census, "municipalities" generally include all active governmental units officially designated as cities, villages, boroughs, and towns.

Table 18

Local Retail Sales Taxes by State, Selected Features

April 1, 1970

State and type of local government	Year first tax imposed	Units levying tax[a]		Rate[b] (percent)	Administration
		Number	Percent of total units		
Alabama	1946				Mixed[c]
Municipalities		175	48.7	½-2	
Counties		21	31.3	½-2	
Alaska	1949				Local
Municipalities		45	88.2	1-5	
Boroughs		5	55.6	1-3	
Arizona	1949				Local
Municipalities		28	45.2	½-1	
Arkansas[d]	1966				State
Municipalities		1	(d)	1	
California[e]	1945				State
Municipalities		382	95.5	1	
Counties		58[f]	100.0	1	
Colorado	1948				Mixed
Municipalities		34	13.5	1-3	
Counties		5[g]	8.1	1-2	
Illinois	1955				State
Municipalities		1,240[h]	98.7	½-1	
Counties		97	95.1	½-1	
Louisiana[i]	1936				Local
Municipalities		72	26.7	½-2	
Parishes		50	80.6	½-2	
Minnesota[d]	1970				State
Municipalities		1	(d)	1	
Missouri	1970				State
Municipalities		8[j]	.9	½-1	
Nebraska	1969				State
Municipalities		2	.4	½	
Nevada[k]	1969				State
Counties		2	11.8	½	
New Mexico	1967				State
Counties		3	9.4	¼-½	
New York	1934				State
Municipalities		16	2.6	1-3	
Counties		40	70.2	1-3	
North Carolina	1970[l]				State
Counties		26	26.0	1	
Ohio	1968				State
Counties		3	3.4	½	

Table 18 (Continued)
Local Retail Sales Taxes by State, Selected Features
April 1, 1970

State and type of local government	Year first tax imposed	Units levying tax(a) Number	Percent of total units	Rate(b) (percent)	Administration
Oklahoma	1966				State(m)
Municipalities		216	41.4	1	
South Dakota	1969				State
Municipalities		3	1.0	½-1	
Tennessee	1963				State
Municipalities		14	4.7	1-½(n)	
Counties		79	84.0	1-1½(n)	
Texas	1967				State
Municipalities		505	57.2	1	
Utah	1959				State
Municipalities		142	66.7	½	
Counties		27	93.1	½	
Virginia	1966				State
Municipalities		38	16.6	1	
Counties		96	100.0	1	
Washington	1970				State
Municipalities		140	52.4	½	
Counties		16	41.0	½	
Wisconsin	(o)				State
Counties		(o)	(o)	½(o)	
District of Columbia	1949	1	–	4(p)	–

a. Number includes only those local taxes on which authoritative information is available.

b. Where both counties and municipalities levy the tax, rate figures refer to maximum rate combinations for all local taxes. Exceptions are Alabama, Alaska, Colorado, Louisiana, and New York local rates, which are cumulative. In no state do combined state and local rates exceed 6%.

c. Effective September 12, 1969, the base for all locally administered sales taxes must conform to that of the state tax.

d. Restricted authorization. Arkansas limits use of the tax to first or second class cities with population under 40,000 that have been designated Model Cities. Minnesota's authorization applies only to Duluth.

e. The San Francisco Bay Rapid Transit District (covering Alameda, Contra Costa, and San Francisco Counties) also levies a ½% tax, collected by the state. For the period July 1, 1970, through December 1, 1970, the Southern California Rapid Transit District (covering most of Los Angeles County) will levy a similar tax.

f. Includes the city-county of San Francisco.

g. Includes the Delta County tax, which takes effect July 1, 1970.

h. Approximate number.

i. The tax is imposed by school districts, police juries, and on a parish-wide (county-wide) basis. More than one tax can be imposed within a parish. The maximum combination of local rates is 3%.

j. Includes taxes in 5 municipalities taking effect July 1, 1970.

k. All 17 counties participate in the local-support 1% sales tax system; these mandatory county taxes are classified as being part of the state sales tax.

l. Voters in 25 North Carolina counties approved 1% county taxes at a special election in November 1969. Prior to this election, authorization to levy tax had been restricted to Mecklenburg County, which now uses a 2% tax.

m. The state collects the tax, but municipalities enforce it.

n. The maximum tax payment on a single item is limited to $7.50.

o. As yet no counties in Wisconsin have acted upon a 1969 authorization to levy ½% taxes.

p. Food for home consumption, nonprescription medicine, and specified consumer services are taxed at 2%; alcoholic beverages and restaurant meals, at 5%. A credit against District income tax liability is granted low-income taxpayers to offset part of their sales tax payments.

Source: Commerce Clearing House; Advisory Commission on Intergovernmental Relations; Department of Commerce, Bureau of the Census; percentage computations by the Tax Foundation.

Table 19

Sources of Local General Revenue[a]

Fiscal Years 1958 and 1968

Source	Amount (billions) 1958	Amount (billions) 1968	Percentage distribution 1958	Percentage distribution 1968
	All general revenues			
Total general revenue	$27.6	$63.2	100.0	100.0
Intergovernmental	8.2	22.3	20.0	35.3
From states	7.8	20.3	28.4	32.1
From Federal government	.4	2.0	1.5	3.2
Own sources	19.3	40.9	70.1	64.7
Taxes	15.5	31.2	56.1	49.4
Nontaxes	3.9	9.7	14.0	22.3
	Tax revenues only			
Total taxes	15.5	31.2	100.0	100.0
Property	13.5	26.8	87.4	86.1
General sales[b]	.7	1.2	4.5	3.9
Selective sales[b]	.4	.7	2.5	2.3
Individual income[c]	.2	1.1	1.4	3.5
Other	.7	1.3	4.2	4.3

a. "General revenue" includes all revenue except utility, liquor stores, and insurance trust revenue; receipts from borrowing are not included.

b. Includes gross receipts taxes.

c. Includes minor amount for corporation income taxes.

Source: Department of Commerce, Bureau of the Census. Percentage computations by Tax Foundation.

Table 20

Source of Local Tax Revenue by Type of Unit

Fiscal Year 1968

Unit	Total tax revenue (millions)	Percent of tax revenue: Property	Nonproperty: Total	Nonproperty: Sales tax
All local governments	$31,171	86.1	13.9	3.9
Municipalities	11,291	68.8	31.2	9.7
Counties	6,180	91.5	8.5	1.6[a]
Townships, school districts, and special districts	13,700	97.9	2.1	[b]

a. Estimated.

b. Less than .05 percent.

Source: Department of Commerce, Bureau of the Census. Percentage computations by Tax Foundation.

Tables 22 and 23. Comprehensive data on revenues, available only for city-size groups of 50,000 or more, indicate that in these cities the sales tax furnished 18 percent of all tax collections in fiscal 1968.[3] Somewhat surprisingly, the sales tax was a larger component of tax revenues for cities below half a million persons than for larger cities.[4] For cities below that size, the sales tax constituted 27 to 30 percent of all taxes collected, as compared with about 16 percent for the largest cities.

But for several large cities, viewed individually, the sales tax was a more important source than the aggregate data suggest. (See Table 23.) In the 14 largest sales-tax cities, the share of the tax in total collections (though falling as low as 11 percent in Chicago) extended up to 45 percent in Phoenix. In 8 of the 14 cities sales taxes made up over one-fourth of all city tax collections.

The significance of sales-tax action in large cities transcends natural interest in these cities as such, for in the past adoption by a large city has characteristically preceded – and heralded – enactments by smaller cities in the same state. Inasmuch as a dozen states have provided authorizations since 1965 and 10 of the nation's largest cities have acted upon them, it seems likely that the total number of smaller sales-tax cities will increase rapidly in the next few years.

One important factor in this growth is undoubtedly the efficiency with which state and local governments have come to administer and define the tax. In view of the large and steadily growing number of local governments using the sales tax, and the ongoing search for additional local revenue, the subject of state-local sales-tax coordination deserves special attention.

3. Note that in 1968 only 87 cities in this size group were levying the tax, as compared with 114 in April 1970.
4. At least in part, this fact is explained by the heavier use of other nonproperty taxes by the larger cities, and the higher per capita demand for total revenue (and expenditures) which appears to accompany population growth beyond a certain point.

Table 21

Sales-Tax Cities by Population Size, Number and Percent of All Cities

April 1, 1970

Population in 1960	Number levying sales tax	Percent of all cities
Total, all cities	3,063	17.0
Total, 50,000 or more	114	36.3
1,000,000 or more	3	60.0
500,000 to 999,999	9	52.9
300,000 to 499,999	10	45.5
200,000 to 299,999	7	36.8
100,000 to 199,999	26	38.8
50,000 to 99,999	59	32.1
Total, less than 50,000	2,949	16.6

Source: Commerce Clearing House; Department of Commerce, Bureau of the Census. Computations by Tax Foundation.

State-Local Sales Tax Coordination

All the local sales taxes authorized since 1955 coincide in coverage with their respective state sales taxes; are collected along with them; and apply at virtually uniform rates within each state. This group accounts for two-thirds of the 21 states in which localities generally (as opposed to one or two specifically designated jurisdictions) impose the tax. In a majority of the 14 states, the county is the basic sales-tax unit, but five states permit only municipal levies.

The local taxes enacted under post-1955 authorizations represent an attempt to overcome the chaos of the early postwar taxes.

Locally Administered Taxes. The potential weaknesses of isolated, locally administered sales taxes materialized with a vengeance in the decade after 1945. Municipal levies were imposed by cities of varying size in California, Alabama, New York, Alaska, Louisiana, and Mississippi. Except in Mississippi, definition of the base and administration were left up to the municipalities themselves; as a result, local rates and coverages varied from one jurisdiction to another. Administrative costs were relatively high, but the main defects of the local levies lay in their impact on trade patterns.

Retailers suffered from various provisions for the early levies.[5] As a rule, taxability was determined not by location of sale but by point of delivery. Purchasers who lived beyond a taxing city's boundary (or who knew someone living outside the city) could escape tax by arranging for a store to ship outside for delivery; retailers therefore had to bear the inconvenience and expense of making an increased number of home deliveries.[6] Retailers collected both the state and the local tax, and (since coverage differed between them) had to maintain two sets of records of taxable and exempt sales. Finally, merchants beyond city limits could offer lower prices. Retailers in the taxing area thus faced the unhappy choice of absorbing the tax or losing sales to tax-free competitors.

The drawbacks of the autonomous local taxes have more than simple historical interest: these levies still operate in Alabama, Alaska, Arizona, Colorado, and Louisiana.[7] Even though Arizona and Louisiana collect sales taxes of their own, they have provided no mechanism for state administration for local levies. Alabama and Colorado offer optional state administration but have failed to induce widespread participation by localities.[8] Though not all the problems mentioned in the composite picture above are present in each of these states, their local taxes appear on the whole to work less satisfactorily than the ones in states with uniformity and state administration.

The "Piggy-Back" Collection Mechanism. In 1955 the California Legislature agreed on a new program of voluntary local cooperation with the state (the Bradley-Burns plan) that was designed to overcome the problems associated with the early local taxes. That same year Illinois (where no cities had en-

5. John F. Due, *State Sales Tax Administration* (Public Administration Service: Chicago, 1963), p. 237 *et. seq.*
6. Conversely, cities levied use taxes on items sold in other areas in the same state and "imported" into the city. In practice, these taxes were for the most part unenforceable.
7. In addition, such features as inter-local use taxes, determination of tax status by point of delivery, and rate variations of as much as three percentage points between neighboring localities persist in the state-administered New York taxes. On a $100 purchase the difference in tax can be $3.
8. Effective September 1969, Alabama required all local taxes to conform in coverage to the state sales tax.

Table 22

Relative Importance of City Sales Tax Collections by City Size

Fiscal Year 1968[a]

Population in 1960	All municipalities, number	Sales-tax municipalities: Number	Pecent of total units	Sales tax revenue as a percent of total tax revenue
Total, 50,000 or more	314	87	27.7	18.3[b]
1,000,000 or more	5	3	60.0	15.7[b]
500,000 to 999,999	17	4	23.5	16.7
300,000 to 499,999	22[c]	8	31.8	26.6
200,000 to 299,999	19	8	42.1	28.1
100,000 to 199,999	67	17	25.4	28.9
50,000 to 99,999	184	47	25.5	29.8

a. Represents fiscal years ending between July 1, 1967, and June 30, 1968.

b. If New York City is excluded, sales tax collections for cities over 50,000 were 21.9% of total tax collections; the share for cities over one million was 16.7%.

c. Includes Nashville and Davidson County, Tennessee, as one levying unit.

Source: Department of Commerce, Bureau of the Census. Computations by Tax Foundation.

Table 23

Sales Tax Revenue in the 14 Largest Sales-Tax Cities[a]

Fiscal Year 1968

City	Population rank 1960	Sales tax rate (percent)	Tax revenue (millions): Sales tax	Tax revenue (millions): Total	Sales tax as a percent of total tax revenue
New York	1	3	$413.7	$2,680.5	15.4
Chicago	2	1	35.2	327.9	10.7
Los Angeles	3	1	62.3	257.6	24.2
Washington, D.C.	9	4	46.0	304.2	15.1
San Francisco	12	1	22.0	166.4	13.2
New Orleans	15	2	15.7	50.1	31.4
San Diego	18	1	11.7	39.3	29.7
Denver	23	3	17.6	54.7	32.2
Phoenix	29	1	13.9	30.8	45.2
Oakland	33	1	9.5	37.5	25.2
Long Beach	35	1	7.3	28.1	26.1
Birmingham	36	1	6.1	19.1	31.8
Oklahoma City	37	1	7.2	20.5	35.3
Norfolk	41	1	4.4	35.3	12.5
Total, above cities	—	—	672.6	4,052.0	16.6

a. Does not include Houston (whose rank in 1960 was 7), St. Louis (10), Dallas (14), San Antonio (17), Seattle (18), Kansas City (27), Fort Worth (34), or Omaha (42), all of which have enacted taxes since their 1968 fiscal years.

Source: Department of Commerce, Bureau of the Census. Computations by Tax Foundation.

acted taxes under existing authorization requirements) and Mississippi (where only a few had done so) ended requirements for voter approval of new enactments, and thus cleared the way for widespread adoption of uniformly defined, state-administered local sales taxes. Taken together, these developments mark the beginning of a transition toward systems of state-coordinated uniform local taxes. But the California action emerges as most important, for it has provided a successful model for subsequent state authorizing legislation.

Under the Bradley-Burns plan (whic' was put into operation early in 1956), California counties were authorized to levy one-percent sales taxes In return for this authority, participating counties were required to bring coverage into line with that of the state sales tax, and also to allow state administration. After deducting collection costs, the state was to remit the proceeds to the county of collection.

In addition the counties were required to credit retailers for city taxes collected within their boundaries. Cities could levy one-percent taxes, and the maximum city-county rate combination was set at one percent. Thus, if all the cities in a county levied sales taxes — which in turn had to have the same base as the state and county taxes and were to be collected by the state — tax revenue remitted to the county would be limited to the amount collected in unincorporated areas. Cities in nonconforming (that is, nonparticipating) counties could continue to impose and collect their own taxes, but nonconforming counties were forbidden to do so.

A key feature of the plan was elimination of use taxes on items bought within the state. Tax status of a sale became a function of vendor location rather than point of delivery. Local use taxes still applied to imports from other states; but since coverage corresponded to that of the state tax, and the state administered the local taxes, out-of-state vendors simply added one percent to the state use tax rate.

Although the plan leaves counties with the option not to participate, the advantages of participation are such that all 58 counties and virtually all municipalities in the state have come to levy state-coordinated, or "piggy-back" sales taxes. In effect, one percent added to the state sales tax rate, and the proceeds therefrom remitted (after deduction of collection costs) to the county or city of collection.

The new system went a long way toward eliminating the disruption and inefficiency of locally defined and administered sales taxes. Insofar as it encouraged widespread local adoptions on the part of counties, it minimized local tax differentials and concomitant disruption of trade patterns. A measure of the plan's success lies in its influence on states later to authorize sales taxes at the local level — among them Utah, Virginia, Tennessee, and (more recently) Washington.

An important element in any system of piggy-back local taxes, and particularly one where localities retain the option to levy taxes they administer themselves, is the state's charge for collection services. Table 24 lists such charges as a percentage of amounts collected.

Distributing Local Sales Tax Revenue

The question of distributional alternatives has received growing attention in recent years. Prior to 1955, the practice was necessarily simple: local governments collected their own sales taxes and retained the revenue. The advent of centralized administration in California and elsewhere cleared the way for distribution in accordance with an index of local expenditures or tax effort. The old method was retained in California, however, and has been a feature of most state authorizations since.

In California, municipalities with a heavy concentration of industry reap the benefits of the state tax's impact on purchases of production machinery – even though such localities might have few residents and therefore a relatively low demand for public services. By contrast, residential suburbs of major cities may have little or no industrial base, and in some instances only a narrow retail base as well. In 1966, for instance, most cities collected less than $10 per capita in local sales taxes – but the city of Industry garnered about $1,070 per capita and the city of Vernon more than $12,000 per person.[9] The extreme range here derives in part from the importance of the industrial component of the California sales tax base; yet it points up a general issue. Should not distribution be related to some criterion more rational than the location of business outlets?

Another aspect of this question concerns county-city revenue shares. Again, the California arrangements have been picked up to a greater or lesser extent by several other states. In California, the question of a county's claim on city collections is left open to negotiation. In

9. The data in this and the following paragraph are taken from Robert C. Brown, "Some Observations on the Distribution of the California Local Sales and Use Tax," *Proceedings of the National Tax Association: 1968*, pp. 27-40.

Table 24

State Charges for Administration of Local Sales Taxes, Selected States

December 31, 1969

State	Deduction of full costs of collection	Charge as a percent of collections
Alabama	Yes	3.1
Arkansas	No	–
California	Yes	1.1
Colorado	No	–
Nebraska	(a)	3.0
Nevada	No	1.0
New York	(b)	.9(b)
North Carolina	Yes	1.1
Oklahoma	Yes	2.5
South Dakota	Yes	2.5
Utah	Yes	2.5
Virginia	No	–

a. The actual cost of administering local taxes is not yet known.

b. Local costs are not segregated from that for the state sales tax, which is less than 1% of collections. The charge to a sales-tax locality is based on its share of total state and local sales tax revenue.

Source: Questionnaires to state taxing officials.

addition to collections on sales in unincorporated areas, counties receive from one percent or so up to 45 percent of revenue from sales in cities, depending on the agreement in effect. Yet the share going to counties has fallen continuously over the years and in 1966 amounted to less than half the amount they would have received under a per-capita allocation. A primary reason for this, of course, lies in the attraction a city typically exerts on residents of outlying areas as a center of trade.[10] In other words, relative to population, cities contain a disproportionate share of retail outlets and thus of the sales tax base.

A few states take counties as the basic unit and proceed from there. When Wyoming abolished local sales taxes in 1967, the state sales tax rate was raised by an amount sufficient to offset the revenue lost, and the increased state proceeds were earmarked for distribution to counties of collection. Within each county, revenue goes to cities and towns in proportion to their share of the county's population, and the county government receives the remainder. In this way residents of unincorporated areas — who are likely to pay as much in sales taxes as others — get the same credit, in the form of a payment to their county government.

A North Carolina plan, put into effect in 1969, incorporates factors for both population and property-tax effort in its allocation formula. Counties participating in the state's local sales-tax program retain half the money from the one-percent local taxes, with the retained amount to be distributed between the county and its cities according to the intensity of property tax use in each. The other half goes to a centralized pool and is distributed on the basis of a per-capita formula that favors densely settled localities.

These examples are cited not so much as models, but to suggest the range of possible alternatives. If local sales taxes are intended to shift reliance away from the tax on real property, an index based on assessed valuations might serve as a good allocational guide. If their purpose is to equalize local fiscal capacity, a per-capita factor might receive more emphasis. Much depends on traditional state-local relationships, the role of county programs in the local finance mix, and similar considerations.

But any reasonable weighting factor is likely to be more rational (i.e., in closer harmony with a state's policy goals) than point of sale alone.

State Takeover of Local Taxes

All but one of the states authorizing local sales taxes since 1955 have made uniform definition and state administration a prerequisite to local enactment.[11] Moreover, even though some of the states authorizing local taxes in recent years have confined their use to municipalities, the thrust of these actions has been toward continuous, state-wide networks of uniform local taxes. In every one of the states to authorize general enactments between 1955 and 1966 for example, the tax has become state-wide in character.

In view of the distributional alternatives open to the states, the trend toward universal use of local sales taxes within a state raises an interesting question. In such situations, some have asked, why

10. A second factor is the inducement the tax has provided for incorporation of new cities so as to include industrial areas, thus removing such areas from county sales tax rolls. Industry and Vernon, mentioned above, are examples of this sort of "tax gerrymandering." See John W. Lynch, "Local vs. State Administration of Local-Option Non-Property Taxes," *Proceedings of the National Tax Association: 1967*, p. 493.

11. Tennessee provided an option for local collection when local sales taxes were permitted there in 1963, but in practice all sales-tax localities have chosen the piggy-back form.

not raise the state sales tax rate, refund a portion of the new revenue to local governments on rationalized criteria, and do away with local taxes as such?

Indeed, state takeover of local taxes has already occurred in three states where local taxation had become general.[12] The 1967 Wyoming precedent was noted earlier. Mississippi, where only municipal levies had been in force, followed suit in 1968, and New Mexico in 1969. It is too early to say whether these actions are unrelated in character or make up the beginning of a new pattern.

12. The 1% "local-school-support" tax in Nevada, mandatory for all 17 counties at its introduction in 1967 and now regarded as part of the state tax, is a variant form of state takeover. The overall result in these four states resembles longstanding practices in Wisconsin, Alabama, and elsewhere of earmarking state sales tax revenue for local schools or local general purposes.

VIII.
Summary and Conclusions

The tremendous growth of government spending all over the world has put new strains on revenue systems. The search for ways to get more taxes — with a minimum of harmful effects — continues. The three major potentials, income, capital, and consumption, are each used in various ways. The consumption base has been developed, in Europe especially, by the value-added tax. After much expert analysis, this has seemed to appeal as a rational form of levy for large revenues. In this country, the states have developed, over 35 years, a revenue form of much the same economic nature, the retail sales tax.

The states first introduced levies on retail sales in the depression of the 1930's, in response to the drastic decline in revenue from established sources. Although intended as a temporary measure when enacted in some states, the tax has endured. Today every state to use a retail sales tax in the past levies it, and only five — with less than two percent of the nation's population — remain without it. In recent years, the tax has also come into extensive use by local governments, and is now levied in 23 states by more than 3,500 local units.

The widespread use of the sales tax by state and local units is attributable to several factors. The heavy reliance of the Federal government on the income tax discourages intensive use of that source by the states. On the other hand, the Federal government imposes no general consumption tax and has left that field open to the states and localities. Further, the sales tax seems uniquely feasible from an administrative standpoint at the state level, or at the local level when administered by the state. Given these factors, the decisive feature of a retail sales tax from the point of view of the states is its power to raise truly substantial amounts of revenue at rates low enough to minimize distortions and disincentives of the sort that accompany any tax.

Exemption Policies

Exemptions affect the revenue yield and growth potential of the tax, of course, but they have significant nonrevenue consequences as well. Perhaps the best known exemptions are "consumer" exemptions, most notably those designed to reduce the tax burden on low-income families. Fifteen states exempt food for off-premises consumption; 25 (including all those exempting groceries) exempt prescription drugs; and five most purchases of clothing. On the same grounds, several states exempt sales of household utility services. Among the three items universally subject to state *excise taxes*, only gasoline is commonly exempt from the sales tax. Liquor, on the other hand, is nearly always taxed. Among consumer *services*, utilities, room rentals, and admissions to public events are most commonly included in the tax base. But professional services — legal, financial, and medical — are nearly always excluded.

Discretionary exemptions (i.e., goods and services considered suitable for taxation but exempt in some states) comprise fully one-half the volume of total taxable sales. Assuming similar patterns hold for individual states (and disregarding sales of producers' goods), the food exemption would cost a state 21 percent of its potential tax revenue. Exempting all eligible services would cost 14 percent. For gasoline, alcohol, and tobacco, the aggregate figure is 12, but for drugs, only two percent.

Most observers agree that there is no economic reason to draw a distinction between taxing certain services and commodities. When added to the tax base, services provide new revenue. However, the data indicate that taxable services are actually declining as a share of consumer spending. For this reason, addition of such services is unlikely to increase the (relative) growth potential of the tax — even though it may be desirable on other counts.

For several types of producers' goods, state exemption policies coincide. Uniformity ends abruptly, however, as regards treatment of production machinery. Although there has been a pronounced trend in the past decade toward exempting sales of machinery, about half of the sales-tax states still levy the tax on such sales.

Reasons for taxing industrial purchases grow out of tradition, administrative convenience (as in the case of items bought for either business or personal use), and the fact that such purchases represent a productive — and politically safe — revenue source. There are, however, compelling arguments against the taxation of production machinery. A retail tax confined so far as possible to consumer sales can be designed to satisfy the conventional performance criteria. For a tax on consumption *and* investment purchases, however, this outcome becomes virtually unattainable. Taxation of machinery dampens investment incentives, discriminates among producers in different industries, and renders it impossible to determine the final burden of the tax.

Distribution of the Burden

The sales tax is related to what people take out of the country's production; savings are not taxed. People who for one reason or another are able to avoid some of the burden of other taxes pay a retail sales tax. When the rate is from four to six per cent, inequities which appear in an imperfect world are perhaps less serious than those which may result from the much higher rates of several state income taxes. Tourists and nonresidents pay something toward the cost of government.

For the great majority of taxpayers the tax is roughly proportional with both consumption buying and with disposable income. As a percentage of income (but not in dollar amounts) the tax *is* somewhat lighter on families with large incomes than on those with low incomes. But the state services and transfer payments financed by sales taxes are sharply "progressive" in impact: they benefit low-income residents most and typically amount to several times the value of the taxes they pay.

Nevertheless, the sales tax is still stigmatized by a popular belief that it is regressive — that it tends to bear more heavily on low income groups than is consistent with good public policy. A moderately effective way to reduce the burden (and the regressive element) on the lowest income groups is to exempt food as well as housing. Such exemptions can bring the distribution of the sales tax burden into substantial proportionality over the income range including most families. But while commodity exemptions alter tax incidence, they are not without fault. They create problems for administrators and retailers alike; they may affect resource allocation patterns; and they favor people who spend unusually large budget shares on exempt items. Further, they are costly in terms of revenue foregone.

In recent years several states have developed an alternative to the food exemption as a means of reducing the regressive element in the sales tax. Seven states and Washington, D. C., grant credits against their income taxes, amounting to refunds of sales tax paid on several hundred dollars worth of taxable purchases. Experience to date suggests that credits can be defined so as to do anything a food exemption does, at less costs in terms of lost tax revenue. These credits represent a major innovation and add considerable flexibility to the traditional retail sales tax. Use of the credit seems likely to spread to other states.

Administration and Compliance

The sales tax, as compared with most other levies, is relatively easy to administer and for taxpayers to comply with. It is convenient for taxpayers (consumers). The collection does involve some expense for the retailer, but the government can make approximate reimbursement. From the standpoint of taxing authorities, most troubles in gaining taxpayer compliance involve relatively small, and especially new, firms. Indeed, the two problems most often reported by the states — delinquency and failure of vendors to maintain adequate records — arise for the most part from their dealings with small sellers, particularly those with little tax obligation. Larger chain and department stores and most established businesses comply carefully; the state can deal with them without great difficulty.

Costs of administration and compliance are relatively low. As a share of tax collected, it costs most states from .7 percent to about 1.5 percent to administer the tax. The higher the rate, of course, the lower will be the state's cost in proportion to revenue. Vendors also incur collection costs, and total costs of administration and compliance are perhaps twice the amount borne by the states alone.

Problems associated with the early local sales taxes, administered by localities themselves, have largely disappeared with the advent of state-local coordination and administration of most local taxes. Every general local sales tax authorization since 1955 has provided for uniformity in local rates and coverage, joint collection of state and local sales taxes, and the abolition of troublesome inter-local use taxes.

Special circumstances surround state administration of the tax on sales in interstate commerce. Difficulties have arisen, largely because of the absence of uniform practices from one state to another. At present two approaches to a solution are under consideration: Federal legislation to impose sharp restrictions on state jurisdiction with respect to out-of-state vendors; and joint action by the states to obtain uniform provisions for state taxation of income and sales in interstate commerce through adherence to a Multi-State Tax Compact.

Effects on Business and the Economy

A state sales tax in the range of 4 to 6 percent will probably have no more adverse effects on businesses than any other tax yielding the same revenue. Much depends, of course, upon the structure of the tax – particularly as regards the taxation of business purchases. At worst, however, the bad effects on the whole state economy – or, for that matter, the national economy – cannot be large compared with those of other revenue sources.

A retail sales tax, unlike an income tax, is not a levy on a base on which the Federal government already imposes rates of 20 percent and over. A properly defined state sales tax will not aggravate today's powerful pressures to let income-tax considerations modify business and investment practices. The "business climate" – an important intangible – will not suffer from a sales tax that is confined, so far as possible, to to purchases for household consumption.

Much attention has turned in recent years to the influence of various taxes on the international competitive position of industrially advanced countries. It is said that the Common Market countries, by means of their value-added taxes, can easily provide tax rebates to exporters and place domestic taxes on imports. The United States, on the other hand, relies heavily on corporation income taxes – which are not suitable for rebates at the border. The separate state retail taxes apply only to domestic sales: exported goods are sent out free of sales tax, and imports are taxed the same as domestically produced commodities. Retail sales taxes, then, are harmonious with current balance-of-payments goals.

Table A-1, Part 1

Selected Commodities Taxable under Retail Sales Taxes by State[a]

As of March 1, 1970

Legend: T, Taxable; E, Exempt

State	Food for off-premises consumption(b)	Clothing	Prescription drugs(c)	Excise-taxed commodities(d)			Production machinery(e) (at full rate)	
				Gasoline	Alcoholic beverages	Cigarettes	Industrial	Agricultural
Total taxing	30	40	20	9	40	31	23	22
Alabama	T	T	T	E	T	T	E	E
Arizona	T	T	E	E	T	T	E	E
Arkansas	T	T	T	E	T	T(f)	E	T
California	E	T	E	E	T	T	T	T
Colorado	T	T	E	E	T	T(f)	T	T
Connecticut	E	T(g)	E	E	T	T(f)	T	T
Florida	E	T	E	E	T	T	E	T
Georgia	T	T	T	T	T	T	E	E
Hawaii	T	T	T	T	T	T	T	T
Idaho	T	T	E	E	E	T	E	E
Illinois	T	T	T	T	T	T	T	T
Indiana	T	T	E	T	T	T	E	E
Iowa	T	T	T	T	T	T	T	T
Kansas	T	T	T	E	T	T	T	T
Kentucky	T	T	T(h)	E	T	T	E	E
Louisiana	T	T	T	E	T	T	T	T
Maine	E	T	E	E	E	T(f)	T	T
Maryland	E	T	E	E	T	T	E	E
Massachusetts	E(b)	E	E	E	E	E	E	E
Michigan	T	T	E(i)	T	T	T	E	E
Minnesota	E	E	E	E	T	T(f)	T	T
Mississippi	T	T	T	T	T	T	E	E
Missouri	T	T	T	E	T	T	E	T
Nebraska	T	T	E	E	T	T	T	T
Nevada	T	T	T	E	T	T	T	T
New Jersey	E	E	E	E	T	T(f)	T	E
New Mexico	T	T	T	E	T	T	T	E
New York	E	T	E	T	T	T	E	E

Table A-1, Part 1 (Continued)

Selected Commodities Taxable under Retail Sales Taxes by State[a]

As of March 1, 1970

Legend: T, Taxable; E, Exempt

State	Food for off-premises consumption(b)	Clothing	Prescription drugs(c)	Excise-taxed commodities(d)			Production machinery(e) (at full rate)	
				Gasoline	Alcoholic beverages	Cigarettes	Industrial	Agricultural
North Carolina	T	T	E	E	T	T	E	E
North Dakota	T(j)	T	E	E	T	T	T	T
Ohio	E	T	E	E	T	T	E	E
Oklahoma	T	T	T	E	T	E	E	E
Pennsylvania	E	E	E	E	T	T(f)	T	T
Rhode Island	E	T	E	E	T	E	T	T
South Carolina	T	T	T	E	T	T	E	E
South Dakota	T	T	T	E	T	T(f)	T	E
Tennessee	T	T	T	E	T	T	E	E
Texas	E	T	E	E	E	E	T	E
Utah	T	T	T	E	T	T	T	T
Vermont	E(b)	T	E	E	T	T(f)	T	T
Virginia	T	T	E	E	E	T	E	E
Washington	T	T	T	E	T(k)	T	T	T
West Virginia	T	T	E	E	T	T	T	E
Wisconsin	E	E	E	E	T	T(f)	E	E
Wyoming	T	T	T	T	T	T	T	T

a. Some states tax separately items normally included in the sales tax base. Automobiles are excluded from sales tax coverage and taxed under separate laws in Maryland, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Virginia, and West Virginia. Special low rates apply to automobiles under the sales taxes of Alabama, Florida, Mississippi, and North Carolina.

b. Restaurant meals are taxed in every state but Massachusetts and Vermont, where they are subject to special "meals excise" and "meals and rooms" taxes respectively. Meals costing less than $1 are exempt in Connecticut and New York; however, if alcohol is served, New York taxes meals regardless of price.

c. States exempting prescription drugs sometimes extend the exemption to medical appliances and/or nonprescription medicine.

d. All states impose selective sales taxes on motor fuels, alcoholic beverages, and cigarettes.

e. See Table 9 for more details on exemptions of production machinery.

f. Tobacco products other than cigarettes are taxed. Among these states only three (Arkansas, Minnesota, and Vermont) apply a special excise tax to tobacco products other than cigarettes.

h. Exempt as of January 1, 1971.

i. The tax applies only to 50% of the amount charged for prescription drugs. Artificial eyes and limbs are wholly exempt.

j. Fresh meat and dairy products not enclosed in airtight containers are exempt.

k. The rate on wine is 26%; on liquor, 15% plus 2¢ per fluid ounce.

Source: Commerce Clearing House.

Table A-1, Part 2

Selected Services Taxable under State Retail Sales Taxes by State

As of March 1, 1970

Legend: T, Taxable; E, Exempt

State	Utilities(a)				Repair services	Dry cleaning and laundering	Barber and beauty parlor services	Admissions(b)	Hotels and motels(c)
	Gas and electricity	Telephone and telegraph	Water	Local transportation					
Total taxing	31	28	16	8	13	14	7	27	39
Alabama	E	E	E	E	E	E	E	T	T
Arizona	T	T	T	T	E	E	E	T	T
Arkansas	T	T	T	E	E	E	E	T	T
California	E	E	E	E	E	E	E	E	E
Colorado	T	T	E	E	E	E	E	E	T
Connecticut	E	E	E	E	E	E	E	E	T
Florida	T	T	E	E	T	E	E	T	T
Georgia	T	T	E	T	E	E	E	T	T
Hawaii	E	E	E	E	E	T	T	T	T
Idaho	E	E	E	E	E	E	E	T	T
Illinois	E	E	E	E	T	E	E	T	E
Indiana	T	T	T	E	E	E	E	E	T
Iowa	T	T	T	E	T	T	T	T	T
Kansas	T	T	T	E	E(d)	E(d)	E	T	T
Kentucky	T	T	T	E	E	E	E	T	T
Louisiana	E	E	E	E	E	T	E	T	T
Maine	T	T	T	E	E	E	E	E	T
Maryland	T	E	E	E	E	E	E	E	T
Massachusetts	E	E	E	E	E	E	E	E	E
Michigan	T	T	E	E	E	E	T	E	T
Minnesota	T	T	T	E	E	E	E	T	T
Mississippi	T	T	T	T	T	T	E	E	T
Missouri	T	T	T	T	E	E	E	T	T
Nebraska	T	T	T	E	E	E	E	T	T
Nevada	E	E	E	E	E	E	E	E	E
New Jersey	T	T	E	E	E	E	E	T	T

Table A-1, Part 2 (Continued)

Selected Services Taxable under State Retail Sales Taxes by State

As of March 1, 1970

Legend: T, Taxable; E, Exempt

State	Utilities(a)				Repair services	Dry cleaning and laundering	Barber and beauty parlor services	Admissions(b)	Hotels and motels(c)
	Gas and electricity	Telephone and telegraph	Water	Local transportation					
New Mexico	T	T	T	T	E	E	T	T	T
New York	T	T	E	E	T	E	E	T(e)	T
North Carolina	E	E	E	E	E	T	T	E	T
North Dakota	T	T	T	E	E	E	E	T	T
Ohio	E	E	E	E	E	E	E	E	T
Oklahoma	T	T	T	E	E	E	E	T	T
Pennsylvania	T	T	E	E	T	T	E	E	T
Rhode Island	T	T	T	E	E	E	E	E	T
South Carolina	T	T	E	E	E	T	E	E	T
South Dakota	T	T	E	T	T	T	T	T	T
Tennessee	T	T	T	E	T	T	E	E	T
Texas	T	E	E	E	E	E	E	E	E
Utah	T	T	E	T	T	T	E	T	T
Vermont	T	E	E	E	E	E	E	T	E
Virginia	E	E	E	E	E	E	E	E	T
Washington	E	E	E	E	T	T	T	T	T
West Virginia	E	E	E	E	T	T	E	T	T
Wisconsin	T	T	E	E	T	T	E	T	T
Wyoming	T	T	E	T	T	T	E	T	T

a. A few states tax utilities services under separate levies and exempt them from the sales tax.

b. Connecticut, Maryland, Rhode Island, South Carolina, and Tennessee levy separate admissions taxes.

c. Illinois, Massachusetts, Texas, and Vermont impose a separate tax on transient lodgings.

d. Subject to tax as of July 1, 1970.

e. Admissions to motion picture theaters, race tracks, boxing, wrestling, and live dramatic or musical performances are exempt.

Source: Compiled by Tax Foundation staff from Commerce Clearing House reports.

Table A-2

Consumer Spending for Selected Services and Related Comparisons

Calendar Year 1968

Item	Expenditures (billions)	As a percent of personal consumption expenditures	Increase, 1960-68 (percent)
Personal consumption expenditures	$536.6	100.0	63.2
Commodities	313.9	58.5	59.6
Services	222.8	41.5	68.5
Services never taxed[a]	174.3	32.5	70.5
Taxable services	48.5	9.0	61.5
Utilities	25.2	4.7	67.0
Auto and appliance repair and service	8.7	1.6	47.9
Dry cleaning, other clothing services	5.4	1.0	91.3
Barber shops, beauty parlors	3.8	.7	63.2
Admissions, participant amusements	3.8	.7	27.6
Hotels and motels[b]	1.5	.3	72.1

a. Includes housing and domestic services, medical services, personal business services, private education and research, and religious and welfare activities.

b. Both the 1968 amount and the increase from 1960 are estimates based on the relative weight of this item in the consumer price index for 1968.

Source: Department of Commerce, Office of Business Economics.