"ALLOCABLE RECEIPTS"—NEW NAME

Consider New York City's excise tax on gross receipts, which became due on June 15. It is levied on all business and professions carried on in New York City, at the seemingly nominal rate of one-tenth of one per cent of gross receipts. Both in principle and effect it is one of the most vicious of all taxes.

Sales taxes are condemned by all sound economists because they increase price and thus reduce purchasing power and hence production. But sales taxes are generally paid only once, by the ultimate consumer. On the other hand, a tax on gross receipts, or turnover tax, is cumulative, as it falls on every point in the productive process.

In our highly developed society many industries co-operate in the production of the various goods and services which we demand. A tax on the gross receipts of each of these industries, even at a low rate, results in a very appreciable increase in the cost to the ultimate consumer.

For example, the pencil with which I write contains graphite, wood, metal, paint and rubber. Each of these materials, or their components, passes through several processes, each of them carried on by different processors, before coming to the pencil manufacturer. And each of these business units, in turn, may be dependent on a host of other business houses for materials, supplies, and services, such as machinery, delivery equipment, stationery, fuel, professional services, etc. Every link in the chain of production must include the taxe in its costs, and pass it on.

In former years the tax in question was levied only on receipts derived from sales within the State of New York. Sales in interstate commerce were deemed exempt under the Federal constitution. This year the city is attempting to apply the tax to receipts from sales shipped outside the State. Receipts from sales in interstate commerce are ingeniously called "allocable receipts," and a portion of such receipts, arrived at by means of a complicated calculation, are declared subject to the tax. And so, in addition to its other defects, this levy is another sign of the tendency towards the breakdown of that internal free-trade which once played so great a part in the development of the United States.

There are those who maintain that every form of tax has its adherents—those who benefit by it. Many persons claim that this and similar taxes, calling for complicated calculations and technical knowledge, are beneficial to lawyers, accountants (I am one), and tax experts, whose services thereby become necessary. But such professional advisers are laborers in the economic sense. Their wages also come from production. And the more such taxes interfere with production, the less can the tax experts obtain for their efforts.

Who then are the beneficiaries of such taxes? The answer will readily suggest itself to every reader of **The Freeman** from the fact that the tax under discussion specifically exempts receipts derived from the sale of real estate and from rents.

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