

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 16, 1942.

To Chairman Eccles

Subject: _____

From Mr. Thurston

Some of the figures given by Randolph Paul in his speech to the Harvard Business School may be worth putting in your speech file, viz., there are over 2-1/2 million business units selling at retail. A tax on retail sales would require constant tax collections and tax returns from every one of these more than 2-1/2 million taxpayers.

How do you educate all of the store clerks in the country to know what items are taxable and which are not and at what rate the tax is, if it is to be variable?

Excluding sales to Federal and State governments and war production contractors (and there would be no sense in taxing these sales), a 5 per cent retail sales tax is estimated to yield about \$2,400,000,000 a year. Excluding articles already on the excise tax list, the yield of the 5 per cent sales tax would be \$1,700,000,000. Exempting sales of food and medicine would reduce the yield to \$824,000,000. Exempting in addition all sales of clothing, the yield would drop to \$404,000,000. Taking out sales of fuel, there would be another drop to \$394,000,000.

Hence, as Randolph said, if the sales tax is to yield enough to justify the administrative effort and complexity, it must apply to food and other necessities of life - in other words, it has to be regressive, bearing disproportionately on those least able to pay.


