

Abolition of the Luxury Tax

Why the Impost Was Unpopular and Unsatisfactory. — Substitute Measures that are Favored in Commercial Circles.

BY A STAFF CORRESPONDENT.

UNWEPT and unhonored, the Luxury Tax was, last week, abolished except in the case of a very few articles. The testimony of store keepers in Montreal is to the general effect that its abolition immediately gave an impetus to purchasing on the part of the general public. The method by which the tax was abolished—of the Government's own mere motion instead of by the decision of Parliament—excited a good deal of surprise. But that the tax was one which should have been abandoned, or, perhaps it would be more correct to say that it should never have been imposed, at any rate in the form it assumed, seems to be the very general opinion in commercial circles. The remarkable degree of disfavor which it has incurred is due, it appears, to three main reasons.

Difficult of Collection.

In the first place, it is notorious that the tax has been difficult of collection, and this difficulty has undoubtedly conduced to evasion, whether such evasion has, or has not, been as widespread as many who should, in the nature of things, be in some fair position to judge of the matter, maintain. In our whole system of taxation, the Luxury tax was the only impost that applied to the retailer, as such. Now, retailers are a very numerous class, and where very many persons are subject to a tax, a certain proportion of them are always certain to attempt to evade it. As a fact, the Luxury Tax was an easy one to evade.

It was evaded in two ways. On the one hand, certain retailers failed to collect the tax from their customers. If the tax was likely to spoil a good sale, it could be conveniently forgotten by some of them. On the other hand, a dishonest retailer, although he might collect the tax from the customer, could refrain from turning it in to the Government. In any event, the collection of the Luxury Tax, in any very busy season, such as Christmas, was found an almost intolerable nuisance by the retailer. The experience of one large retail firm in Montreal was that the mere additional accounting work necessitated by the Luxury Tax cost it \$70 a week, and this without including any overseeing expenses.

Bad for Business.

In the second place, the Luxury Tax undoubtedly proved—particularly as Christmas drew near—to have a very detrimental effect on business. The Minister of Finance, when he imposed the tax, had in view not only the provision of increased revenue, but also—and on this head he laid special emphasis—the checking of extravagance among the people. As regards the provision of increased revenue, the Luxury Tax has, for the last three months, brought into the coffers of the State something like \$900,000 a month. But, whatever effect the Luxury Tax may have had in check-

ing extravagance—and this must be largely problematical by reason of the unsatisfactoriness of an arbitrary decision as to what does, and what does not, constitute a "luxury"—there can be no question but that it has tended to depress retail trade and such depression has reacted on the manufacturer and his ability to keep the wheels of commerce turning and so provide work for his proper complement of employees.

The Luxury Tax was found, in operation, to have a curious psychological aspect about it. The retailer, when selling a commodity on which the tax was payable, could not include the tax in his selling price, but had to show it separately on a sales note. With regard to this psychological aspect, it has been found that, while a customer will pay, without demur, \$70 for an overcoat, if he is quoted \$60 as the overcoat's price and it is then found that he has to pay \$9 tax, in addition, he will, in many cases, decide not to buy.

Cost of Collection.

Thirdly, it is obvious that the cost of collection of the Luxury Tax, supposing it to have been effectively collected, must have been high, by reason of the large number of the retailers from whom it had to be collected. Of that large number, a considerable proportion are only accustomed to the keeping of books of account of an elementary or nebulous kind. In the case of such traders, it must obviously have been a matter of great difficulty for the Government officers, if they tried to sift the matter to the bottom, to ascertain whether or not the tax was being evaded.

To Take Its Place.

The Luxury Tax having been a-

bolished what will take its place? For the necessity for the provision of revenue still remains. The Government cannot impose a substitute tax by Order-in-Council. That is a matter for Parliament. In the meantime, various suggestions have been put forward by different commercial bodies.

For example, the Montreal Wholesale Dry Goods Association has proposed that the present Sales Tax should be increased by such a percentage as would provide sufficient additional revenue to equal the amount lost by the abolition of the Luxury Tax. At this point, it may be convenient to say a word or two as to this Sales Tax and the differences between it and the abolished Luxury Tax. The Sales Tax is one at the uniform rate of one per cent. on sales of manufacturers and wholesalers, and it is applied to all their sales. The Luxury Tax, on the other hand, was a tax collected, or supposed to be collected, by the retailer from the purchaser, at the time of sale of a commodity subject to the tax, and turned over by the former to the Dominion Government. It was not a tax of uniform amount, but was one of ten, fifteen and twenty per cent, on various lines of commodities above a certain amount in value, and one of fifty per cent, on articles of gold not specifically made subject to a tax of lesser amount.

Claim of Simplicity.

It is claimed for this proposal of the Montreal Wholesale Dry Goods Association to increase the present Sales Tax, in order to provide the revenue forfeited by the abandonment of the Luxury Tax, that it possesses the merit of simplicity. One knows, it is argued, what the present Sales Tax of one per cent, produces. Therefore, it is claimed, the amount of in-

crease in the Sales Tax necessary to provide the additional revenue required can be determined with almost mathematical accuracy. The trade and the public, it is further urged, are alike familiar with the Sales Tax, which levy is working satisfactorily, and there is no reason to believe it is being evaded.

A "Turnover" Tax.

Another alternative is sponsored by the Council of the Montreal Board of Trade. That body favors, in place of the abolished Luxury Tax and also of the Sales Tax, in its present form, what has become known as a Turnover, or General Sales Tax. This it proposes should be made applicable not only to the manufacturer and the wholesaler, but also to the retailer as well. It is to some such method as this, that it looks as though things are trending in the United States. Representative Mott, of New York, has introduced a bill in Congress providing for the repeal of the luxury taxes, excess profits taxes and practically all the excise taxes, and the substitution therefor of a tax of one per cent. on the turnover of all businesses, with exemption in the case of concerns where the sales do not exceed \$200 a month. In opposition to this alternative suggestion, it is argued, however, that such a Turnover Tax applicable to retailers would be open to one of the objections advanced to the late Luxury Tax, namely that it would be a matter of great difficulty to collect it, by reason of the considerable proportion of the smaller retailers who do not keep proper books of account.

Impetus To Buying.

"The abolition of the Luxury Tax," the head of a large retail house in Montreal told me, "is not going to work miracles. The public are holding off from buying largely because they are firmly persuaded that retail prices have not yet reached rock bottom. With the public in that mood, the Luxury Tax, while in operation, no doubt contributed to make the unwilling purchaser more unwilling still. Its removal certainly seemed to give an impetus to buying, particularly, perhaps, in the lines of jewellery, furs and clothing. At the same time, its removal coincided with the opening of the last week of Christmas shopping, when a considerable acceleration of purchasing was anyhow to be expected, even with the public in the mood mentioned. So it is difficult to estimate the extent to which the abolition of the Luxury Tax has resulted in increased purchasing. But, no doubt, it has helped considerably."

NEW YEAR TRAVEL.

Montreal — Sherbrooke.

The Montreal-Sherbrooke Service of the Grand Trunk Railway System provides a choice of convenient trains for New Year travellers. You may leave Montreal 8.30 a.m. and 8.20 p.m. daily and 4.16 p.m. daily, except Sunday. There is a parlor car on the 4.16 p.m. train. Returning, the traveller may leave Sherbrooke 3.15 a.m. and 3.00 p.m. daily and 8.05 a.m. daily except Sunday. The 3.15 a.m. train has a sleeping car for Montreal which is ready for occupancy at Sherbrooke at 10.00 p.m. the previous evening. The 3.00 p.m. train has cafe parlor car.

CONFECTIONERS ARE WROTH AT DISCRIMINATION.

According to Mr. C. J. Bodley, Secretary of the Confectionery, Biscuit and Chocolate Industries of Canada, the confectionery manufacturers' interest stated Mr. Bodley, "the confectionery manufacturers were among most of the so-called luxury taxes. The Executive Committee of the association was in session in Toronto last week as the result of scores of letters and telegrams from members all over Canada, asking why candy should be placed in the same category as liquors and playing cards.

"So long as this form of taxation was considered necessary in national interest, stated Mr. Bodley, "the confectionery manufacturers were perfectly willing to take their medicine and do their share. Of course, like people in other lines, their business suffered through decreased sales, and this in turn necessitated staff reductions and lessened output, but if, as explained from Ottawa, one of the primary reasons for repealing the tax with respect to other commodities was the expectation it would stimulate buying and thus lead to increased factory employment, why was discrimination practised in the case of those who have been accustomed to earn their livelihood by making candy and dipping chocolates?"