Citizens Research Council of Michigan
810 FARWELL BUILDING — DETROIT 26 204 BAUCH BUILDING — LANSING 23

Summary Digest of Michigan Tax Study Staff Reports

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Resume of the Staff Report on Chain Store Taxes
Prepared for the Michigan Tax Study

History and Development

In the late 1920s and early 1930s a number of states enacted chain store taxes. This was the period of rapid development of chain stores. Opposition to the chain store method of retailing developed among wholesalers and retailers who feared that chain stores might absorb the entire retail business of the country. While it was the work of those opposing chains which first led to proposals for chain store taxation, additional support for such taxes was secured as a result of the need for additional state revenue during the 1930s. Michigan adopted its chain store tax in 1933 and by 1939 chain store taxes were in effect in 24 states. After 1940 the movement against chains subsided and at present only 13 other states impose taxes that can be said to discriminate against chains.

Tax Rates and Structure

Michigan's chain-store tax (which is called a license fee) is imposed on the privilege of operating more than one store or counter (e.g., a bakery counter in a supermarket) under the same general ownership, management or control. The fee is based on the number of stores or counters operated in the State. The fees are graduated progressively, ranging from $10 per store up to four stores and progressing to $250 per store for over 25 stores. The rate for counters is less, ranging from $10 per counter up to 11 counters and progressing to $25 per counter for over 25 counters. Gas stations, bulk plants, and farm products warehouses and elevators are exempt. The tax applies only to retail stores and not to wholesale establishments.

Michigan's tax is approximately average as compared to the other 13 states levying chain store taxes. Michigan's graduated progressive rate method of taxation is used by most states. Likewise, a majority of states exempt filling stations and grain elevators. It is interesting to note that Indiana is the only other Northern industrial state levying such a tax.

At present the Michigan tax produces less than $500,000 annually, which amounts to only six-hundredths of one per cent of Michigan's tax collections. Since many of the chains paying the tax are small (81 per cent have only 2 or 3 stores) the nuisance of the tax is perhaps more important than the amount. The tax is also minor in other states – nowhere does it produce more than one-third of one per cent of total tax yields.

An Evaluation of the Arguments in Support of Chain Store Taxes

1. Produce Revenue for Hard Pressed States The real purpose of the tax is regulation – a chain store tax is a very poor revenue producer.

2. Chains Take Money Out of the Community No single community is an entity unto itself. The only money that a local merchant may retain in the community which large chains do not is the net profit.

3. Chains Produce Unemployment If Chains can distribute goods more efficiently (with the resulting gains passed on to the consumers) the public interest will be served, since more goods and services will be available with the same amount of effort.

4. Chains Have Greater Ability to Pay Taxes There is little or no relationship between the number of stores in a chain and profitability and ability to pay taxes.

5. Chains Do Not Pay Their Share of State and Local Taxes While it may be true that chains pay a smaller amount than independents in certain types of taxes, such as the personal property tax, a special tax will not equitably adjust the tax burden.

6. Chains are Monopolistic Chains do not possess monopoly power in the classic sense. The Federal Trade Commission has expressed the view that, "To tax out of existence the advantages of chain stores over competitors is to tax out of existence the advantages which the consuming public has found in patronizing them".

7. Equalize Competition Another argument advanced in favor of chain store taxes is the equalization of competition. It is improbable that chain store taxes could be devised to equalize competition. The logical conclusion of such an argument is that discriminatory taxes should be imposed throughout the whole field of distribution to equalize competitive conditions.

Conclusion

Chain store taxes are essentially discriminatory taxes that add considerably to the overhead of some stores, impose lighter burdens on others and none at all on still others. While chain store taxes impose discriminatory burdens on chain stores, the burdens do not appear to be of sufficient weight to curb chains or seriously interfere with their operations. Chain taxes are not accomplishing their professed goal of regulating the large dominant national chains. The taxes are likely to prove more burdensome on the local chain with a large number of small units in the taxing state.

As a public service the Research Council has prepared this digest of a staff report to the Michigan State Tax Study Committee. It should be emphasized that the material presented is a digest of the staff report to the Committee and does not represent the findings or opinions of the Michigan Tax Study Committee, its citizens advisory committee, or the Research Council.