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THE CASE AGAINST MERCANTILE TAX

Retail mercantile tax currently raises about $2.1 million per year for the City of Pittsburgh. With inflation running over 10% per year, retail mercantile tax would be expected to raise $2.3 million for 1982. Doubling the tax would raise an additional $2.3 million.

Yet the proposed budget predicts an increase of only $1.9 million in revenues from doubling the mercantile tax. Why? Because the mayor's office is expecting a recession for the retail trade industry for the coming year!

With bankruptcies already increasing in record numbers and a trade recession just around the corner, doubling the mercantile tax could be a serious mistake.

Mercantile tax is an arbitrary and counter-productive tax that singles out businesses engaged in retail and wholesale trade. It is based on gross receipts, not on profits. It taxes merchants in proportion to their activity, not their wealth or profits. Furthermore, it bears no relationship to the advantages provided to each merchant by the community for which they, like everyone else, should be taxed.

Basing a tax on gross sales volume creates several inflationary and counter-productive pressures, not the least of which is the effect on competitive advantage.

Stores that depend on doing a high-volume business at a low mark-up suffer the most from the mercantile tax. Stores that do a lower volume business at a higher profit margin suffer the least. This generates a competitive edge not only for price gougers, but also for stores that cater to wealthier customers. Stores that make products available to large numbers of people at reduced rates end up paying a share of the tax disproportionate to their profits.

Supermarkets operate at the highest volumes and the lowest mark-ups of any class of retailers. Their net profits usually equal about 1% of their sales volume. A 1-mill increase in the mercantile tax is actually equal to about 10% of a supermarket's profits.

Certainly the supermarket will try, as all merchants will try, to pass this tax on to its customers by runningfewer sales or by raising some of its prices. But not all stores may be able to do this.

Over the years, Thorofare has gone bankrupt, A&P has left Pittsburgh, and Giant Eagle, the largest chain still operating in the city, has closed some of its less profitable stores. Some communities, like Hazelwood, have been left without any full scale supermarket. Others, like South Oakland, must tolerate long lines and other service problems from supermarkets operating on austerity budgets.

Surely it is an unhealthy economic system which makes it more profitable for an owner of a supermarket property to let that property sit idle than to provide food for his neighborhood. Yet that is what we have happening today, and increasing the mercantile tax could only aggravate the situation.

Merchants and professionals are the backbone of any local economy. They make products and services available to local consumers and jobs available to workers. Where merchants have been most active, as in Shadyside and Squirrel Hill, the local economy thrives and land values soar. Where merchants have closed down, as in the West End and in Hazelwood, the local economy becomes distresses and land values plummet.

Rather than taxing merchants for activities which are beneficial to the community and which create higher land values, we recommend taxing the land values themselves. Land Value Tax does not exactly pamper the merchants, but it does not single them out either. Most importantly, it taxes them according to their locational advantage, not according to their output.

Merchants will try to make up for the land tax, just as they would try to make up for the mercantile tax. But the way to maximize profits under a land tax is to run a higher volume business, while the way to maximize profits under a mercantile tax is to either reduce volume and raise prices or to close down and sit on the property.

Land tax, because it does not single out merchants or any other segment of the economy, because it is based on locational advantage rather than sales, and because it does not encourage the holding of valuable commercial property out of use, is far more appropriate for increase at this time than is the mercantile tax.

According to the proposed budget figures and current assessment data, the mercantile tax increase can be replaced by 6.44 mills of land tax. We believe that this is clearly the better choice.