APPENDIX G

BUSINESS ENTERPRISE DATA: SOURCES AND METHODS

Information on type of enterprise and volume of retail trade was obtained from the records of the California State Board of Equalization assembled by staff members of the research and statistics section of the board in cooperation with the Bureau of Agricultural Economics.

California has a retail sales tax on all consumer commodities except foods purchased for off-premises consumption, and a few items covered by special taxes such as gasoline and cigarettes. In addition, it has a use tax which is paid by the consumer for items purchased from outside the State. The tax is always paid by the consumer to the merchant, who pays it over to the Board of Equalization, usually on a quarterly basis, occasionally on a monthly or annual basis. Each retail merchant selling taxable items, therefore, has an account with the board, and regularly reports the total sales tax, the total dollar volume of taxable merchandise sold, and the total dollar volume of business (including nontaxable sales). Services are not taxed, and certain types of enterprises, motion picture houses, banks, cleaning and pressing establishments, for example, are not covered unless they also sell taxable goods.

Since these taxes are an important source of revenue, the data on tax and taxable sales, and on enterprises selling such items, are closely watched and the data themselves are highly accurate. Since nontaxable items are not a factor in tax payments, records of sales of such merchandise are somewhat less reliable, and may be underenumerated. No estimates are available on such error, but it is assumed not to be large.

There is virtually universal coverage of all retail sales establishments, because no category of enterprise sells nontaxable goods exclusively. While groceries are not covered, soaps, paper towels, and so forth, are covered and therefore all grocers with a normal complement of goods must handle sales-tax moneys.

The most important stricture on the data is that the sales are recorded by class of business enterprise and not by type of merchandise sold. The board has worked out a classification of establishments which breaks them into 47 different groups, from general merchandise to industrial equipment. This classification, along with subcategories in each, has been published under the title "Business Classification Code of Permittees Licensed Under the California Retail Sales Tax Act" (California State Board of Equalization Sales and Use Tax Division, March 7, 1941, mimeographed). This publication indicates the general rules for classification, of which the following are significant to the present study: The classification should be made on the basis of the seller's principal line of business, whether taxable or not, but if he has two principal lines of equal importance, it should be made on the basis of the taxable one, or if the principal line of business is other