THE VALUE ADDED TAX

by WILLIAM LOOMIS

Talk has centered around a new tax concept: the Value Added Tax. Its affect on the golf industry is discussed along with interest rates

WASHINGTON, D.C.—Everybody involved in the golf business should get a working knowledge of a newly conceived Federal tax as fast as possible. It has been designated the Value Added Tax (VAT). Golf industry officials will be hearing a lot more about it in the next few years regardless of the election results in November.

The new tax program would do much to overcome the hostility that has grown up in the country in recent years over the use of property taxes to finance schools and other local governmental expenses. Last year, more than half the attempts by local governments to raise funds by new bond offerings backed by higher property taxes failed. Now, Federal tax experts are searching for some new plan to raise revenues on an additional basis for local distribution. There are no assurances that the VAT, if it is eventually instituted, will lower property taxes. The concensus is that it will slow the acceleration and perhaps stabilize property taxes for both residential and recreational lands.

If you think VAT has little to do with your business, you'd better think again and get a working knowledge of the VAT proposal. Top tax experts in Washington say that within a few years the tax system may be adopted.

Actually VAT has been used in Europe for a while. Essentially, it is a general Federal sales tax that is slapped on goods at every level of production and distribution. It is a tax on the difference between what a firm pays for what it buys and what it sells its product for. Let's look at how it works based on a VAT tax of 11 per cent at various steps in the production and distribution chain.

A golf clothing manufacturer pays $20 for the fabric needed to turn out a specific garment. He pays another $5 for other finishing materials.

Under VAT, the manufacturer, using the 11 per cent tax, adds $2.20 for the cost of the fabric and 55 cents for the cost of other materials. At this point, the manufacturer of the garment has a cost of $27.75, rather than the $25, without VAT.

Now on to labor costs and other expenses, and the profit the manufacturer expects to make. Let's say that comes to a total of $15. The manufacturer adds the 11 per cent tax to the $15 as well, or $1.65. The wholesale tag on the garment now is $44.40 including the $4.40 VAT, rather than the $40 the manufacturer would charge the wholesaler today.

If there is a wholesaler involved, he would be the next link in this chain of escalating Federal tax charges. Assume the wholesaler's operating costs, handling and profit require him to raise the garment's price tag to $10. The wholesaler must pay the Federal government the 11 per cent VAT, or $1.10 for this markup. This means that the $44.40 garment he got from the manufacturer is going to cost the golf professional $55.50.

The professional also marks up the garment another $10 to meet his expenses and make a profit. The professional must pay the Government $1.10 on the value he "added" to the garment's price. The cost of the garment to the golfer customer of the golf shop is $66.60;

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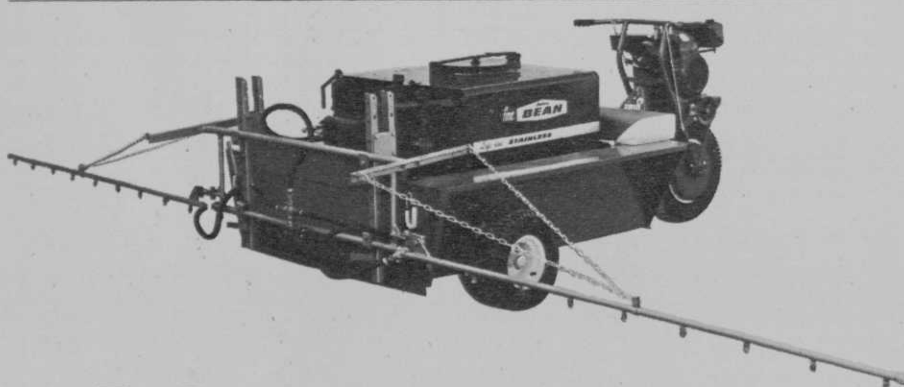

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$6.60 of that total is VAT. The tax alone is more than 20 per cent of the cost of the manufacturer's fabric and other materials. This example is essentially the same for the club manager and his food and beverage costs and the superintendent and his equipment costs. The superintendent, however, is the final step or chain in the VAT.

Also bear this in mind. If VAT becomes law, the bookkeeping isn't going to be simple. In fact, the example above is an oversimplification of how each manufacturer, wholesaler and golf professional is going to have to value material, labor, profit and other costs. And you can be sure, records are going to have to be kept very carefully to satisfy Federal tax collectors.

In the end, it means that the customer or golfer buying the garment is going to foot the bill for VAT and the costs of handling it.

Another matter of increasing interest in Washington, and of more immediate importance than VAT, is the feeling that interest rates, especially charges for short-term borrowing, are about to start moving upward again.

Some investment analysts are now saying that short term credit will increase 20 to 30 per cent above last year's $38 billion. It will be wise for businessmen to watch closely the speed with which the big corporations begin increasing their borrowing from the low levels that have occurred while the economy was in a slump. Corporations began to pick up their borrowing rate in February.

An important note for the golf business: Most analysts expect the record high level of savings to begin slipping. This means that consumers will be spending more. For the golf industry, this could mean more action in the golf shops. Also, a rise in interest rates should not be treated pessimistically. The rates will only rise when banks and the Federal Reserve begin to react to a major upsurge in business. If confidence can be restored and consumers start spending again, many observers believe the country will go on another spending binge, like that in the late 1960s, regardless of what the credit situation may be. □