

Substitutes for the Personal Property Tax

The people of most states are interested just now in the reform of their taxation system. An interesting paper on the subject, "Substitutes for the Personal Property Tax" was read before the Nebraska farmers' congress by Prof. G. O. Virtue, of the University of Nebraska. Prof. Virtue's paper follows:

The title of this paper, selected by your committee, implies that there is some question about the propriety or the continuance of the tax now imposed on personal property. There are grounds for such an implication. There is widespread conviction, not only in this state but in nearly every other state that there is something seriously wrong with the tax system—if, indeed, we can call our various tax arrangements a system; that the tax machinery is inefficient; that the tax burden is unequally apportioned; that for some reason it falls with the force of a cruel sacrifice upon some while others hardly feel the burden; that the administration of the law is full of deception and fraud, a source of corrupting influence upon good morals and good citizenship. This complaint is well nigh universal and it is bound to continue to grow in volume and vehemence unless we find adequate remedies for the evils which exist.

This is a severe arraignment of our tax system; but no one acquainted with the facts can doubt that it is substantially a just one. How does it come that we who pride ourselves upon our ability to govern, have to acknowledge that we have failed at one of the most vital points in government? The answer is that we are trying to do the impossible. We are trying to secure a revenue by a system that is unsound in theory and full of fatal weaknesses in practice. The main reliance for revenue in all our commonwealths and particularly in Nebraska is upon the general property tax. This is a tax upon all kinds of property of whatever character, productive and unproductive, tangible and intangible; it is a tax laid upon all these various forms of property at a uniform rate. It rests upon the theory that the ability to support the government is measured by the value of the property held; that a man's tax paying ability increases as fast as the amount of his property and no faster. The theory was sound enough for practical purposes under the conditions existing when it originated; when the kinds of property were few and about the same in character and amount within a taxing jurisdiction. But with the growth of new forms of property; with the great changes in industry which have transformed manufacturing and commerce from businesses of a purely local character to business of a national or international character; with the rise and continued extension of corporate organization in every branch of industry; with the appearance and wide distribution of shares and bonds of these corporations in the hands of persons living under different jurisdictions; with all these changes in the character of property and of modern business the old theory is no longer sound. It is no wonder that such a tax fails in practice. It rests on a false basis and it fails whether the tax laws are well administered or poorly administered.

No one expects to see a perfect tax system. No part of the general property tax is perfect. The simplest and most satisfactory part of it is the land tax; yet rarely is it administered with equity. The difficulties and inequalities increase when we try to tax the improvements upon it. Assessors and assessed seem to think there is something wrong in imposing a tax on a house or a barn built for the comfort of man and beast; and they shrink from putting on a high valuation. In some parts of Canada such improvements are exempt from taxation altogether. When we pass from realty to personal property the troubles multiply. Take e. g., the tax on household furniture. Who will pretend to place a true value on his own goods to say nothing of his neighbor's? The same problem exists, in more complicated form when we try to assess merchants' and manufacturers' stocks. The merchant may know approximately what he has; but the assessor does not and the figures he sets down are merely a brave guess. When we pass to intangible personalty the difficulties become simply insurmountable. In the case of tangibles the assessor has some evidence of their existence; but in the case of the intangibles he has none. He must rely here not upon his own guess, but upon the fair mindedness of the owner. The assessment must virtually be a self-assessment. It is with this class of personalty

that most, but by no means all, of the evasion and deception, with resulting injustice, occurs. It is no wonder that the question is being continually raised in every state whether there is not some way of escaping the perplexities involved in the taxation of these various forms of property. The quest is for a substitute for these taxes that shall be a better test of ability to pay and that shall remove or reduce the temptations to fraudulent practices.

Let us look first at the tax on household furniture. The assessed valuation of this class of property amounts to about five and a half millions in this state, in a total of four hundred and twelve millions on the grand assessment roll. No exemptions are allowed. This means that every householder is placed on the tax rolls. This is done on the theory that the value of such property is a fair index to the owner's ability to support the state. I do not stop to argue the question as to whether it is a fair index; but content myself with pointing out; first, that the assessment is open to the grossest inequalities. Take such an article as pianos, fairly homogeneous in character. The average assessed value as found in Scotts Bluff county is \$40.71; in Douglas county \$16.85. Sewing machines are returned at an average of \$5.00 in Boyd county and at \$1.25 in Jefferson. These examples are fair illustrations of the inequalities in assessing easiest items of household goods. Second, I submit that it is an uneconomical tax. I stood not long ago in line behind a woman waiting to pay her taxes for nearly an hour. She probably spent as much time going to the treasurer's office and her tax was seventy-five cents. I have not figured out the cost of making the assessment, checking it up in the county assessor's office, extending and distributing the tax in the clerk's office, the collection and distribution of the proceeds to the various funds; but you may be sure it absorbs more than the amount of the tax. There are many thousands of such schedules returned every year which are productive of little or no net revenue but bear heavily upon the tax payer. The most obvious rule to follow in such cases would be in the interest of equity and economy, to exempt such small properties from taxation altogether, as is done in most states. If the theory is, however, held to that every citizen should be brought face to face with the tax collector, a suitable substitute for this part of the personal property tax could be found in taxing the rental value of the house occupied. There is a very common feeling that "all property ought to be taxed." As a matter of fact no property is taxed. Property is assessed merely for the purpose of ascertaining the ability of the owner to support the government. It is not property that is taxed but persons, though we constantly use expressions which seem to imply the contrary. Now a tax on the rental value of a house a man lives in has the merit of being a probably fairer test of ability than what is in it; a determination of the facts as to value is very much easier; it would remove the necessity of invading the household and the administration would be more economical. It has the disadvantage of being unusual in America, though common enough in European countries. It is not likely soon to be adopted perhaps; but I believe we shall sooner or later come to it, and it is not too early to begin to consider it.

Take the next tax on merchants' and manufacturers' stocks. These are generally dealt with as items of personal property. Attention has already been called to the difficulty of reaching all such property, or of properly valuing that found. A number of substitutes have been tried for taxing such property, as license taxes, taxes on sales, and the like. The most successful substitute, however, seems to be business taxes worked out by several Canadian provinces. In some provinces the rental value of the property occupied is made the basis of the tax. The law applies to all kinds of businesses, wholesalers' and retailers' manufacturers, coal dealers, printers, etc. Now it may be, however, that a given business may require an expensive building and yet the turn-over being slow, the income and hence the tax-paying ability may be low. This fact is recognized in the law and businesses are graded with the aim of bringing about equality among those in the same business and equity among those in different businesses. The retail merchants pay on a basis of twenty-five per cent of the rental value of the property occupied. Wholesalers, carrying on their business in the less congested districts are rated at seventy-five per cent of

the rental value, manufacturers at sixty per cent, and so on some businesses being rated as high as one hundred and fifty per cent on the rental. In other provinces the basis of the business tax in lieu of personal property taxes is the floor space occupied. This tax is also graded according to the character of the business. There is no pretense that perfect justice is attained by these business taxes; but it is claimed that they are preferable to the personal property tax, that they are more equitable, business knows just what this tax is going to be, there is no evasion, and there is economy of administration. It seems, therefore, quite clear that a distinct gain would be made by substituting one of these simple forms of business tax for the tax on the personal property employed in business.

It seems desirable that some substitute for the tax on farm machinery and live stock should be found. The exemption of this class of property has been suggested as a proper off-set to the "exemptions," secured through evasion, of certain classes of property chiefly held in the cities. Inequalities in assessments occur in taxing this class of property though perhaps not in so marked a degree as in the case of merchants' stocks. The auditor's report shows wide differences in valuation on such items as are reported. Threshing machines range from \$19.75 in Box Butte to \$233.71 in Boyd. Carriages and wagons vary from \$2.89 in McPherson to \$12.24 in Boyd. Hogs average \$1.00 in Morrill and \$2.90 in Butler; sheep range from forty-five cents to \$1.42; horses from \$8.00 (in Hooker) to \$20.71 (in Pawnee.) These are the differences left after the state board has done its work of equalization. Some of them can in part be accounted for, without doubt, by real differences in value; but most of them represent differences in the "judgment" of the assessors.

The live stock is no small item in the valuation for Nebraska. It amounts to about thirty-one millions in a total of 412 millions. The exemption of this class of property would probably fall short of being an adequate offset for the evasions in the cities and towns. It would simplify the process of taxation; it would relieve the tenant farmer and prove but a slight increase of burden for the landowner; and this burden would in large part be overcome by the encouragement it would give tenants to keep more and better live stock. The exemption would operate differently in different counties. In Cherry county e. g. live stock forms about one-third of the total valuation, while in Seward it constitutes but about 6.5 per cent of the total. In the grazing counties, having low land values, it would probably be necessary to tax the live stock but relief could even then be given by making such a tax purely local.

The most troublesome part of the general property tax has, as every one knows, been the tax on intangibles, on stocks, bonds, mortgages, money and the like. This part of our tax system can fairly be said to have failed—failed to get the revenue designed by law; failed in securing justice among the citizens; and probably failed worse in the matter of securing justice, the more successful it has been in securing revenue. The universal complaint that such property evades the assessor, the degree of evasion seems to have little relation to the character of the people or to the characters of tax administration. Massachusetts probably has the most efficient tax system in the union; yet its special commission of 1908 estimated that not more than 10 per cent of this sort of property got upon the tax-rolls. The tax commission of Minnesota made the guess a year ago that the evasion there was as great; recent experience, as I shall show later, indicates that it was far greater.

How is this wholesale evasion to be accounted for? Not alone by laxity of the laws; nor, in my opinion by lack of public-spirit and virtue in the taxpayer. The tax fails not only because the property is easily concealed, but because its collection works a deep injustice, and mainly for the following reasons:

1. A tax upon the greater part of intangible property, as stocks and mortgages, involves double taxation. That proposition requires no argument. The law that taxes the mortgagor on the full value of his farm and the mortgagee on the full amount of his loan proceeds upon the theory that the loan transaction has created additional taxable wealth. The legislature of 1911 recognized the fallacy of that theory by making a mortgage secured by Nebraska real estate an interest in the land, and relieving (theoretically) the land by the amount of the mortgage.

2. In the second place the holder of in-

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