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STATE AND LOCAL TAX REVISION IN COLORADO

G. S. KLEMMEDSON



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STATE AND LOCAL TAX REVISION IN COLORADO

By G. S. KLEMMEDSON, Associate Economist

CHAP. 1—THE PROBLEM: EQUALIZATION OF TAX BURDEN

The increasing burden of taxation on real estate has reached the point where the consensus of opinion is that farmers, ranchmen, home owners, and other real estate owners are paying more than their share of the costs of government.

Colorado cannot hope to build its industries and develop its natural resources, particularly its agricultural industry under the present system of taxation.

It will be generally admitted that the equalization and reduction of the tax burden is one of the most important and vital economic questions before the people of Colorado.

Reduction in property taxes can be brought about by better administration of existing laws, reorganization and economy in state and local government, and state and local tax revision to secure a more equitable distribution of taxes in accordance with ability to pay.

One-Half the State and Local Revenue Should Be Derived from Sources Other Than Tangible Property

Provision should be made for an equalization of the present tax burden to a point where real estate will pay dollar for dollar, its share in respect to other forms of wealth, much of which now escapes taxation. The minimum of relief should not be less than an adjustment to a point where real estate will bear from 50 to 60 percent instead of 85 percent of the total tax burden.

Even tho the necessary funds are obtained from sources other than real estate, relief will be absolutely dependent upon laying down proper restrictions so that these funds must be used for the benefit of real estate. Since this is generally admitted, our chief study would appear to be to reduce the present tax load as much as is reasonable and to ascertain other sources of revenue to supplement the revenue derived from real estate.

This bulletin presents an account of the tax system of Colorado with a consideration of the present tax sources, the weakness of the property tax, and gives suggestion for correcting certain evils in our tax system. An attempt will be made to answer some of the questions which have been asked about our present tax system and new methods of taxation. The tax situation is changing so rapidly, however, that it is almost impossible to keep up-to-date with the developments in Colorado and other states.

What Has Been Accomplished.—Before proceeding it might be well to show that taxes can be reduced when taxpayers are properly informed.

Colorado's tax bill for the year 1932 will be \$9,509,237 less than for the year 1930. The taxpayers paid \$49,206,717 for the year 1930 and will pay \$39,697,480 in property taxes for 1932 according to the Colorado Tax Commission. This means a reduction of 20 percent in property taxes during this period.

The total amount collected for state purposes from the general property tax for the year 1932 will be \$4,469,168 compared with \$5,020,184 in 1931 and \$5,695,402 in 1930.

While the total tax bills for all Colorado have been reduced, all parts of the state have not received uniform relief.

Colorado Farm Taxes Cut Four Millions in Three Years.—

Colorado's ranch and farm property tax bill has been cut more than 4 million dollars during the past 3 years. General farm and ranch property taxes have decreased from \$13,914,000 in 1929 to \$9,672,000 in 1932—a total reduction of \$4,242,000.

In 1929 the taxes paid by farmers and ranchmen for state, school and county purposes were reduced one-half million dollars.

In 1931 their tax bill for these purposes was cut 2 and one-half million dollars, and in 1932 they were further reduced 1 and a quarter million dollars.

Valuation of farm and ranch property has decreased from 548 million dollars in 1929 to approximately 381 millions in 1932—a total reduction of 161 million dollars, or about 30 percent in 3 years.

In spite of these reductions, direct taxes on ranch and farm property in Colorado are now almost three times as great as in 1913, when they amounted to \$3,486,000.

The reduction in farm taxes in the state during the past 2 years may be credited to the activity of many organizations interested in reduced taxes, including local assessors, taxpayers associations and the State Board of Equalization. More than 40 taxpayers associations have been organized within the past 2 years.

Tax Delinquency a Growing Problem

Careful planning and prompt action are necessary to keep tax sales and mortgage foreclosures from reaching dangerous proportions in Colorado farming districts.

In spite of the large reductions in property taxes in Colorado within the past 2 years, the percentage of tax delinquency is on the increase. Property taxes have become so burdensome that the tax has become difficult if not impossible to collect in many sections of the state.

When this point is reached it means that our tax system must be revised for a continued attempt to enforce it results in even further losses of revenue. When the property tax gets to a point where it exceeds the amount the taxpayer can bear, and shows a tendency toward greatly reduced returns, something must be done to reduce the amount of revenue which is raised by that tax. If nothing is done by legislation, or taxing bodies, much will be done by the taxpayers themselves.

The situation this year in Colorado may be taken as proof that taxes levied in 1931 for collection in 1932 upon real and personal property were more than the traffic would bear.

State Confronted with Serious Financial Situation.—Let us take, for example, the figures on taxes imposed for state purposes. The figures in Table 1 show the percentage of property taxes collected in the years 1926 to 1930 inclusive as given by the state auditor.

Collections have dropped from 97.8 percent in 1926 to 92.5 percent in 1930. Total collections levied in 1931 for collection in 1932 were running 5 percent behind collections for 1930 the first of November. The final percentage of 1931 taxes that will be collected in 1932 will approximate 88 percent or a loss in collections of 12 percent for the state compared with 7.5 percent in 1930.

Counties Fail to Collect Taxes.—During the last 2 or 3 years the percentage of delinquency under the general property tax has increased considerably in the counties. However, the state has taken no definite steps along the line of a new land policy, or otherwise, to handle the matter. There is no public department or agency which compiles or makes any effort to secure information on tax delinquency in Colorado.

The principal reason for the high percentage of delinquent taxes is the refusal of county treasurers to hold tax sales and force payment of taxes. The counties which hold tax sales every year are getting their taxes in, but those which are depending upon the taxpayer to pay voluntarily are drifting into bankruptcy. Some counties are facing bankruptcy and the officials threaten to quit.

Large landholders in some counties are refusing to pay their taxes until forced to and they bid in the land or make a deal with the county commissioners and pay only a fraction of the taxes. Some large companies have paid no taxes since 1920 in some counties. This has put an additional burden on those who pay taxes regularly.

The percentage of delinquent taxes in the last 5 years is high in most of the mountain counties. (See Table 1 and Figure 1.)

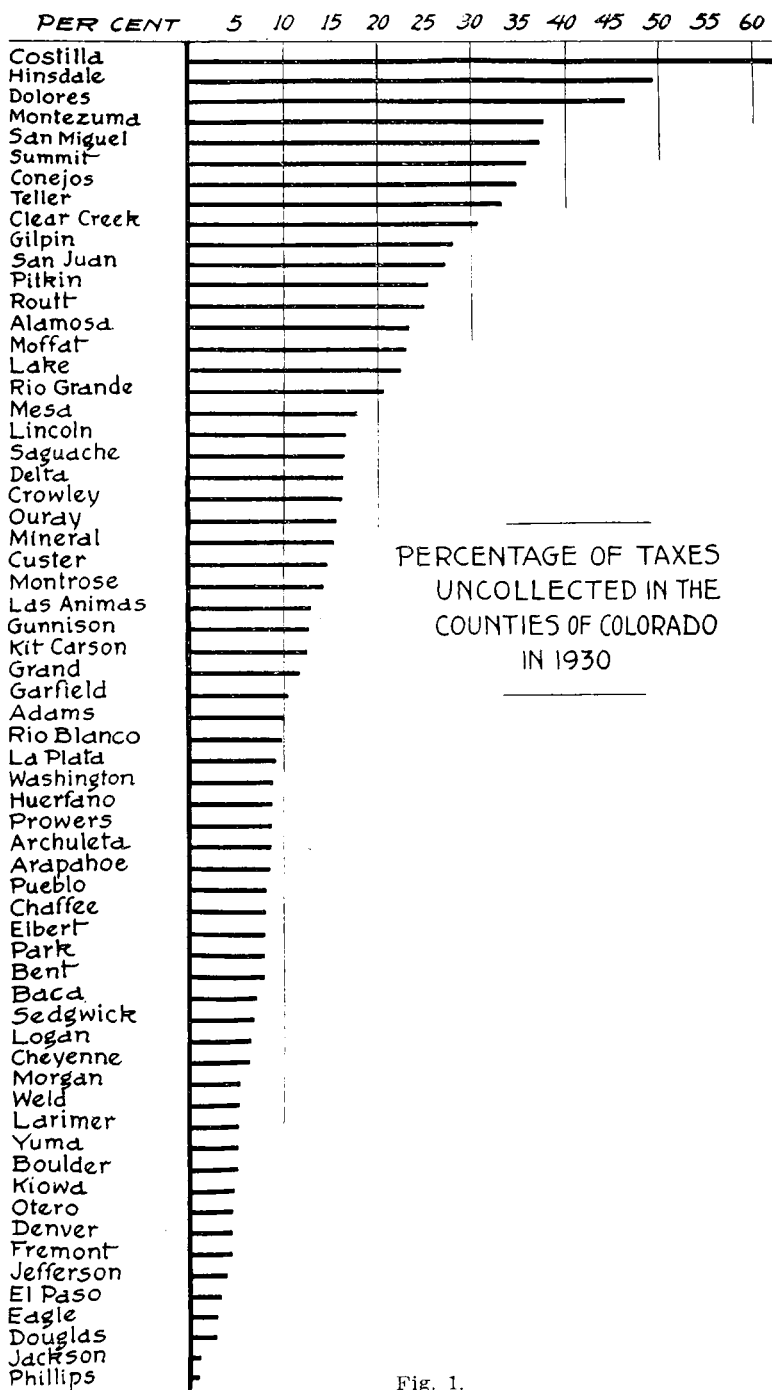


Fig. 1.

Table 1.—Of the Total Taxes Levied in Colorado the Following Statement Shows Percentage of Taxes Collected for Years 1926, 1927, 1928, 1929 and 1930.¹

County	1926	1927	1928	1929	1930	5-Year Average
Adams	99.95	97.69	98.15	96.73	89.88	96.49
Alamosa	95.42	79.69	89.58	84.56	76.67	85.04
Arapahoe	97.22	97.40	97.27	98.11	91.35	96.23
Archuleta	98.46	95.62	96.81	95.65	91.23	95.55
Baca	100.00	97.95	100.00	98.51	92.81	97.71
Bent	98.06	97.35	99.23	96.29	91.96	96.56
Boulder	98.22	97.28	98.42	98.13	94.80	97.36
Chaffee	96.23	93.12	94.51	91.43	91.87	93.48
Cheyenne	98.88	98.62	99.30	99.18	93.58	98.02
Clear Creek	85.11	80.04	86.10	76.07	69.42	79.34
Conejos	92.97	79.81	85.48	82.99	65.14	81.12
Costilla	60.31	47.43	54.79	46.31	37.58	49.30
Crowley	98.93	94.96	97.89	96.37	83.82	94.45
Custer	91.53	89.94	93.85	93.97	85.28	90.99
Delta	97.84	94.73	95.11	92.22	83.66	92.83
Denver	98.56	96.70	97.78	98.60	95.36	97.40
Dolores	74.98	74.70	88.27	65.96	53.60	71.47
Douglas	98.70	97.97	98.32	98.14	96.91	97.99
Eagle	97.58	97.67	98.50	97.72	96.86	97.65
Elbert	99.66	98.29	97.82	98.14	91.90	97.25
El Paso	98.95	98.38	99.08	98.18	96.46	98.20
Fremont	98.42	96.65	97.90	96.83	95.37	97.02
Garfield	96.79	92.98	95.37	92.77	89.45	93.30
Gilpin	75.23	74.65	77.74	71.73	72.02	74.18
Grand	90.17	85.99	88.56	84.65	88.22	89.34
Gunnison	91.60	90.60	92.38	91.51	87.25	90.68
Hinsdale	71.01	68.03	71.67	65.55	50.55	64.82
Huerfano	96.88	95.96	94.94	95.59	91.12	94.94
Jackson	99.63	96.40	99.52	98.95	98.71	98.60
Jefferson	97.97	98.41	98.44	98.59	95.88	97.84
Kiowa	99.93	97.29	99.58	98.55	95.01	98.03
Kit Carson	98.88	97.03	98.10	94.09	87.38	95.43
Lake	84.46	81.00	81.95	79.74	77.65	80.97
La Plata	97.84	96.07	96.34	94.18	90.68	94.94
Larimer	99.39	98.00	98.78	98.61	94.75	97.95
Las Animas	95.18	92.18	94.77	92.45	87.06	92.32
Lincoln	96.82	94.78	97.29	95.32	83.41	93.81
Logan	96.93	97.24	97.54	98.03	93.43	96.65
Mesa	92.26	99.22	97.48	90.56	82.17	89.30
Mineral	95.40	93.45	91.08	89.32	84.61	90.81
Moffat	96.40	87.11	90.08	86.67	77.05	86.07
Montezuma	93.94	86.00	83.16	75.56	61.24	80.04
Montrose	95.83	93.35	94.90	88.52	85.65	91.70
Morgan	98.94	98.15	98.32	98.08	94.58	97.65
Otero	99.86	98.95	97.90	98.34	95.28	98.11
Ouray	88.89	86.09	86.85	85.92	84.31	86.41
Park	96.50	94.55	96.70	95.14	91.91	94.95
Phillips	100.00	98.58	99.56	100.00	98.91	99.50
Pitkin	84.76	82.58	73.53	78.53	74.57	78.89
Prowers	97.57	96.71	97.75	96.62	91.17	95.97
Pueblo	97.40	96.45	96.82	96.14	91.78	95.69
Rio Blanco	99.56	95.68	95.43	72.88	90.15	90.70
Rio Grande	99.23	84.38	96.54	93.22	79.47	90.49
Routt	96.37	80.25	94.92	90.61	74.99	86.76
Saguache	91.62	89.49	94.78	93.61	83.54	91.31
San Juan	87.14	82.85	83.21	77.73	72.79	80.91
San Miguel	87.07	84.77	81.81	68.03	62.70	78.17
Sedgwick	97.44	96.50	98.56	97.52	93.10	96.61
Summit	79.66	75.54	80.90	67.94	64.12	73.63
Teller	90.12	73.34	82.01	67.45	66.76	76.26
Washington	97.52	97.59	100.00	99.22	91.06	97.29
Weld	98.60	97.09	99.22	97.71	94.64	97.46
Yuma	99.24	97.06	99.16	98.73	94.78	97.79
State ²	97.80	97.62	96.66	96.00	92.56	96.13

¹ Prepared by Geo. F. Dodge, Tax Department, D. & R. G. W. R. R. Co., Denver, Colorado, June 2, 1932.² W. D. MacGinnis, Auditor of State.

In the past 5 years Costilla County collected only 49.3 percent of all its taxes, and in 1931 alone only 31 percent. A few large corporations and land owners in this county have paid no taxes for years. Much of the land is owned by non-resident owners. The Rio Grande railroad paid 51 percent of the taxes actually paid in this county in 1931.

The Denver and Rio Grande Western Railroad, which has paid 91 percent of all the taxes collected in Costilla County in 1932, has announced that it will refuse to pay any more taxes until conditions are remedied.

Hinsdale County collected only 64.8 percent of its taxes in the last 5 years and only 50.6 percent in 1930. The Rio Grande Railroad paid 50 percent of the taxes actually paid in 1930.

Jackson County is the exception to the rule in the mountain counties with 98.6 percent of its taxes collected in the 5 years.

Denver collected 97.4 percent in the 5 years, but, like all the other counties, showed a marked drop in 1930 when 95.4 percent was collected.

Some counties have increased their collections by hiring additional help. Tax collectors paid personal visits to delinquent taxpayers with excellent results.

Weld County, the richest agricultural county in the state, had a total of 4,030 tracts of land containing 622,876 acres of land or 31.6 percent which were advertised as delinquent for taxes levied in 1931. The assessed value of this land amounted to \$11,500,930 and the taxes \$278,297. In addition the county holds 7 large books of tax certificates on thousands of acres taken over by the county. The owners are still operating most of these farms. The map of Weld County showing in black the pieces of farm land which were advertised as delinquent for taxes in 1932 is shown in Figure 2.

Last year there were 3,339 farm tracts containing 503,506 acres that were delinquent for taxes levied in 1930. The assessed value amounted to \$11,385,298 and taxes \$324,014.

Many Weld County farmers are delinquent for irrigation water assessments in addition to the property taxes.

A comparison of delinquency in Weld County shows an increase in the number of tracts and acreage of land delinquent for taxes in 1932. The assessed value is about the same but the amount of tax is less. This is due to the fact that the assessed value of farm land in Colorado was reduced 20 percent by the State Board of Equalization for taxes levied in 1931 and payable in 1932.

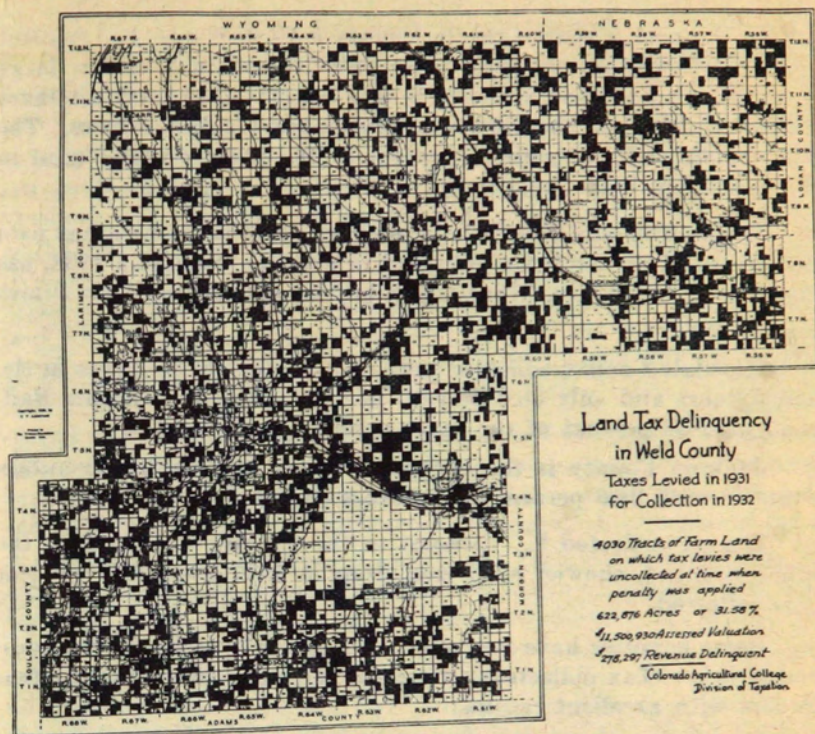


Fig. 2.

In 1913 Routt County spent for county purposes \$72,565. In 1931 Routt County spent \$276,510 for county purposes. The last auditor's report shows the county over-spent its income by \$51,329.38 (registered warrants). Besides this the county has a bonded debt of \$94,000 payable in 1932, but with no funds on hand to pay it, according to F. R. Carpenter, district attorney, who has made a careful study of the tax situation in Routt County.

Over one-third of the total taxable area of the county has already been sold for taxes (261,383 acres and 3,045 town lots). Of this the county owns 153,304 acres and 2,704 town lots. The abstract of assessment shows that Routt County has 633,190 acres of taxable land on the tax roll.

The conclusion is that taxes levied in 1931 for collection in 1932 upon farm real and personal property were more than the traffic would bear.

Generally, the story is one of greatly increased delinquency on real property, or increased foreclosure for taxes and inability to meet current assessments.

Present Tax System Out of Date

Our present tax system originated with our constitution. It is 56 years old. The constitution and tax system have been handed down with little or no change as regards matters of taxation. Our tax system should be modernized to meet present conditions.

When the general property tax was first established as the principal basis of taxation in Colorado, the possession of property was a fairly good indication of ability to pay taxes. Since that time the professional, mercantile and manufacturing classes have been growing and the agricultural class has been declining in relative importance. Investments are no longer chiefly confined to real estate. In the present organization of society, large incomes are frequently earned with little or no ownership of taxable property.

Real Property No Longer the Only Measure of Ability to Pay.—

Because of the inadequacy of the possession of tangible property as a test of taxpaying ability, we ought to have a wide variety of taxes in order to decrease dependence on the general property tax.

The general property tax works no better in the cities than it does in the country districts. A large part of the taxable wealth of cities in this state is composed of residence property. The need and use of housing accommodations are not necessarily commensurate with ability to pay taxes. The difficulty many cities are having in providing adequately for such fundamental necessities as good schools, police and fire protection, and well-paved streets arises in part because the tax burden is not properly adjusted and not entirely because it is too heavy.

Wealth Concentrated in Large Cities.—In earlier days salaries were small and earnings were associated with ownership of property. Today, however, we are living in another world. Where once were thousands of blacksmiths and carpenters and masons all engaged in a small business enterprise of their own, today we have great centralized industrial plants and powerful construction companies which have absorbed independent individuals or partnerships. There has been a great centralization of wealth in our larger cities which has had its effect on our taxing system by drawing tax revenues from the rural sections where much of the business originates.

To illustrate, 55 percent of the total internal revenue paid on tobacco in its manufactured form is collected in North Carolina and you and I, wherever we may live, pay for the revenue stamp.¹ Seventy-three percent of all the automobile excise tax of the United States is collected in Michigan. Of the millions of cars produced in Michigan, only a few thousand are purchased in that state. Every

¹ Internal Revenue Collections, Fiscal Year 1932. U. S. Treasury Department.

purchaser, wherever located, paid in the sale price of his car the excise tax advanced temporarily for him to the federal taxgatherer by a Michigan manufacturer of automobiles.

There are many corporations, railroads and public utilities, paying federal income taxes in Denver whose plants and property are scattered thruout the state, few of them being located in Denver.

It is becoming more extensively true that in the case of important industries, city, county and state boundaries have no economic significance whatever and the tax paid by the corporation originates over an area expanding with complete indifference to those boundaries. Instead of thousands of independent small merchants depending upon their profits for a living, we have an increasing number of great chain-store systems employing managers upon salaries, who are taking the place of the merchants who received no salaries as such. The result is that an ever-increasing part of our state income is absorbed by salaries, wages, commissions and fees.

Many of the people whose incomes are derived from these sources are exempt from direct taxes under the present Colorado tax system. The property tax does not place a levy on salaries and incomes, which constitute an enormous source of wealth which could afford to pay a portion of the tax burden.

By means of this process, the profits are milked out of the rural and mining sections into the leading industrial centers of Colorado and the United States. Yet the rural sections are expected to educate a large number of children who eventually go to the cities. The rural sections are called upon to maintain and build new and better highways used largely by city-owned cars.

Property Receives 27 Percent of the Income Yet Bears 94 Percent of the Direct Tax Burden.—The ownership of property such as farm and ranch lands, livestock, city homes, business property, merchandise and manufacturing property receives 27 percent of the income of the entire population of Colorado, yet this portion must bear 94 percent of the direct state and local tax burden. Income from intangible property, stocks, bonds, securities, wages, salaries, commissions and fees of all professional people none of which pays any substantial amount of taxes for state, county, school and local purposes receives 73 percent of the total income. This latter source of income pays only 6 percent of all direct state and local taxes in Colorado according to studies based on information from the National Bureau of Economic Research and John C. Watson, Director of Taxation of the Illinois Agricultural Association. See Figure 3.

NET INCOME OF ENTIRE POPULATION OF STATE

\$ 876,306,200 IN 1928

*27 per cent of the income
pays 94 per cent
of State and local
property taxes*

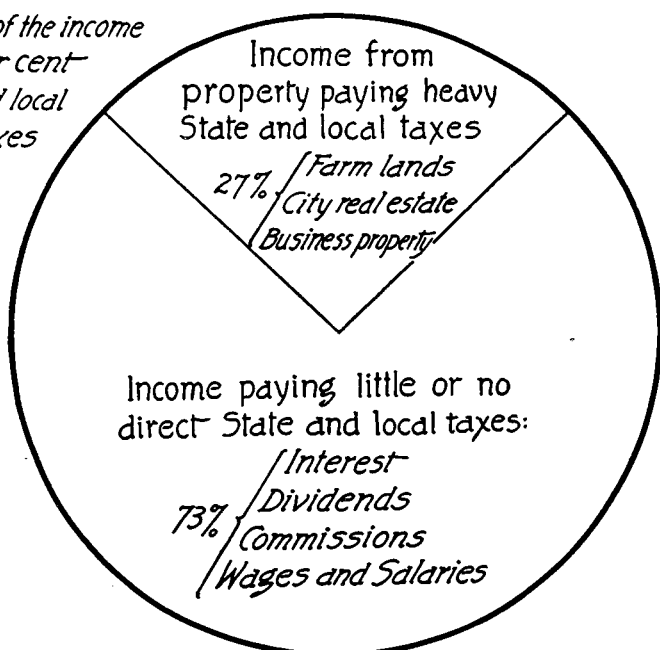


Fig. 3

The ownership of property, therefore, has ceased to be any fair measure of ability of the people to pay taxes. Almost exclusive dependence on the general property tax automatically exempts the greater portion of our population from the payment of any substantial amount of direct general property taxes. It is this change, combined with the increasing demands of the population for service from government, a demand coming largely from those who pay little or no direct taxes for the support of government, which has made the general property tax intolerable and confiscatory.

If Colorado continues to place almost the entire cost of government, including public education, upon forms of property which cannot escape the payment of taxes, it will further discourage the ownership of farms and homes and any other kinds of property which cannot shift their taxes. Such a taxing system, by destroying values of property, cannot fail to destroy itself.

Development of Natural Resources Dependent on Fair Tax System.—Persons who have been protesting that their city or county is being assessed by the state government to give funds to some outlying district seem to forget that it is the natural resources of surrounding counties which enable her citizens to prosper. Mines and farms, to illustrate, are emptied of their wealth, never to be reimbursed, and the profits go to residents of other counties. There is not a single large city in the entire state which secures its prosperity exclusively from the citizens who live in the same county in which that city is located. The poorest county helps to enrich the richest county.

Colorado's natural resources, worth millions of dollars, cannot be developed unless we have a fair system of taxation which will encourage capital to open her mines and build her industries. Any fair system of taxation must recognize that perhaps 60 percent of the proceeds of income or sales taxes will be collected in Denver, Colorado Springs, and Pueblo. This does not mean that these cities will actually pay 60 percent of the bill but that income and sales taxes will flow thru these cities as clearing houses for the state treasury. It does not mean that the income is produced within the confines of the large cities of Colorado.

Killing the Goose that Lays the Golden Eggs.—We all want good times. The good times for which we are all yearning depend to a large extent on the prosperity of the farmer. When the farmers have good crops and are able to sell them at reasonable prices, the money filters thru almost every form of business activity and prosperity comes to all of us. Prosperity depends upon the welfare of the mines, stock yards, the packing industry, feed and grain elevators, transportation companies, smelters, the wholesale and retail trade, mail-order houses, road machinery and bridge firms, hardware, iron and steel industry, mining machinery manufacturers, oil and gasoline industry, cement manufacturers, chemical works, beet-sugar industry and telephone business. The profits of these important industries are dependent upon prosperous agriculture and mining industries. But we are slowly killing the goose that lays the golden eggs, namely, agriculture, mining and industry. If we want prosperity for Colorado, some means must be adopted to help relieve the farm, mines and industry of the tremendous tax load which now eats up the profits.

The Crucial Problem Today in Colorado is the Equalization of the Tax Burden.—All must work together and avoid the formation of factions if we are to have a better tax system. That is the road to success. The desire, the need and the ability to change the tax system are all present.

The widely prevailing tax delinquency in Colorado is a warning that in many localities increasing general property taxes will bring decreasing revenues and bankruptcy in the near future, if that time has not already arrived in some counties.

The Increase in Colorado's Tax Burden

The population of Colorado has increased 30 percent over a period of 17 years from 1913 to 1930, or from 841,000 to 1,035,791.

The annual state and local property tax collections have increased 173 percent, from \$18,032,588 in 1913 to \$49,206,717 in 1930.

The average property-tax rate increased 345 percent during this period. The tax rate increased from \$7.20 per \$1,000 valuation in 1913 to \$32.24 per \$1,000 valuation in 1930.

The assessment of all property in Colorado increased from \$1,306,647,430 in 1913 to \$1,586,462,903 in 1930, or 21.4 percent increase. Assessments have dropped considerably since 1930.

The increased cost has been due to demands by the taxpayers themselves for more and better highways, more and better education thus creating a demand for new buildings and equipment and more and better-qualified teachers. Health and welfare demands have added to the responsibilities of state and local governments.

Governmental Expenditure in Colorado.—The total expenditures for governmental purposes amount to almost 100 million dollars annually in Colorado. In 1930 the total was \$96,612,707 distributed as follows: State, \$14,719,832 or 14.8 percent; education, \$30,372,771 or 31.6 percent; counties, \$15,824,423 or 16.4 percent; cities and towns, \$15,541,212 or 16.2 percent; and federal, \$20,154,469 or 21.0 percent.

Because of our inadequate system of gathering information on governmental expenditures in Colorado, it is almost impossible to get an accurate statement of total expenditures since there is no central authority authorized to gather such information. As a result very few persons know what our government is costing them.

To illustrate, recently certain persons have made the statement that 56 percent of the tax dollar in Colorado is used for the support of the public schools. Such statements in all fairness should be qualified to show that 56 percent of the property taxes in Colorado are devoted to public schools. The figures in Table 2 show that only 31.6 percent of all expenditures are expended for education.

Other types of taxes such as income taxes, sales taxes, excise, stamp taxes, inheritance and many special taxes are just as capable of taking money out of the taxpayer's pocket as the property tax and should be considered in any fair appraisal of the total tax bill.

Table 2.—Governmental Costs and Expenditures in Colorado, 1930.

State ¹	Amount	Percentage
General government	\$ 812,243	
Protection property and person	722,502	
Conservation of health and sanitation	132,665	
Development and conservation of resources	1,096,436	
Maintenance and operation of highways	3,278,767	
Charities, hospitals, and corrections	2,456,433	
Libraries	3,609	
Recreation	14,873	
Miscellaneous	297,970	
Interest	438,547	
Construction of highways	4,708,086	
Other capital outlay	757,701	
Total State	\$14,719,832	14.8
Education		
Public schools ²	\$26,213,618	
State institutions ¹	4,159,153	
Total Education	\$30,372,771	31.6
Cities and Towns		
Expenditures from taxes ³	\$13,358,147	
Expenditures from other funds ⁴		
Business license	538,364	
Fines	174,179	
Franchise taxes	205,372	
Departmental earnings	225,832	
Library receipts	30,259	
Park receipts	107,888	
Interest on bank balances	49,840	
Miscellaneous	851,331	
Total City and Town	\$15,541,212	16.2
Counties⁵		
General county expense	\$ 7,257,668	
Road expense	6,015,608	
Miscellaneous expense	2,551,147	
Total County	\$15,824,423	16.4
Federal⁶		
Personal income tax payments	\$ 4,023,097	
Corporation income tax payments	10,697,552	
Miscellaneous stamp and internal tax	462,820	
Customs, cigarette and tobacco tax ⁶	4,971,000	
Total Federal	\$20,154,469	21.0
Grand Total	\$96,612,707	100.0

¹ Financial Statistics of States. U. S. Census, 1930.² State Superintendent of Public Instruction. 1929-1930 report.³ State Auditor's Report. 1930.⁴ Report Colorado Municipal League cities over 2000 population 1929.⁵ Report Bureau of Internal Revenue. Treasury Department 1930.⁶ National Industrial Conference Board. Cost of Government. 1929-1930. Federal expenditures are devoted to educational, military, forest reserve, irrigation development, highway construction and miscellaneous purposes. These expenditures cost Colorado 20 million dollars annually as shown.

Colorado's State and Local Tax System: Sources of Revenue

Colorado's tax system is based almost entirely on the taxation of property which may be conveniently described and classified as follows:

1. Taxes on real estate
 - a. Taxes on land
 - b. Taxes on land resources, forests and mines
2. Taxes on personal property
 - a. Taxes on tangibles, household goods, machinery, buildings, livestock, automobiles and jewelry
 - b. Taxes on intangibles, money, securities, stocks, bonds and credits

The property tax has been the most widely used method of securing revenues for our state and local government. As it is generally administered today it stands condemned by practically every recognized tax authority.

In addition to the general property tax, Colorado has several other sources of revenue some of which are important but many of which are unimportant from the standpoint of revenue.

Taxes on motor vehicles and gasoline are the most important of the other sources of revenue. These include a 4-cent tax on gasoline and motor vehicle license fees on passenger cars, trucks, motorcycles and school busses. The license fees vary, depending upon the weight, capacity, passenger seats, etc. Motor-vehicle carriers are taxed for the privilege of using public highways on a basis of 5 mills per ton mile and 1 mill per passenger mile, and on the basis of weight \$50 for the first ton and \$25 for each additional half ton.

Another important source of revenue is a tax on inheritance of residents, transfers of non-residents, and estates. The tax rate on inheritances and transfers varies from 2 to 16 percent, and four-fifths of 1 percent to 16 percent in the case of estates, on the value of property in excess of exemptions.

Then there is a franchise tax on insurance companies of 2 percent of the gross premiums paid in Colorado. Domestic mutual fire insurance companies, fraternal and benevolent associations, and insurance companies with 50 percent of their assets invested in Colorado state or local securities are exempt.

Domestic and foreign corporations pay a small license tax for the privilege of doing business amounting to \$10 on \$100,000 or less capitalization plus 10 cents per each \$1,000 of capitalization in excess of \$100,000. Total collection amounted to \$181,210 in 1930. A small tax of .1 percent collected on the assessed valuation of producing metal-mining properties for the metal-mining fund. Collections amounted to only \$13,483 in 1930. The revision of the method of taxing corporations is discussed later under the section on corporation income taxes.

Fishing and game hunting taxes net more revenue than does the corporation license. The 1930 collections netted \$318,278. None of this revenue, however, enters the state general fund since all of it is allocated to the Fish and Game Department.

There are several minor taxes such as the Colorado State Fair tax levy of 12.5 cents per \$100 of value of bonds, notes, debentures, and other obligations issued outside of Colorado and owned by residents of the state. Distributors of gasoline pay \$1 per station. Ore buyers pay \$100 for the right to mill, sample, concentrate or purchase ore for sale. There is a royalty tax on coal mined on public lands amounting to not less than 15 cents per ton and also

a small severance tax of one-third of a cent per ton of coal mined, the proceeds of which go into the coal mine inspection fund. Shippers of fruits and vegetables pay a flat fee of \$1 per shipper to the Department of Markets for the privilege of shipping.

Operators of motor vehicles pay a flat fee of 50 cents and chauffeurs pay \$2. The revenue from this fee is considerable.

Colorado Tax Burden Lower Than Other Western States.—In spite of the large increases in taxes, Colorado's total tax burden is no greater and, in many instances, is actually less than in other states. Nineteen states have a higher per capita state and local tax than Colorado. The per capita state and local tax for Colorado amounted to \$59.07 in 1930 compared with an average of \$55.37 for all other states in the Union. The combined state and local tax in Colorado is approximately 14 percent lower than the average for the 11 Western States which had an average tax of \$68.50.³

Real Estate in Colorado Bearing the Tax Burden.—The real difficulty in Colorado then is that the chief burden falls upon the wrong people. Every thinking man and woman knows that personal property and real estate, whether devoted to home, agriculture, mining or manufacturing use, is bearing too heavy a burden of taxation in Colorado.

Land and personal property carried 81 percent of the state and local tax load in 1930. The other 19 percent was derived from the gas tax, automobile license fees, inheritance taxes, and other miscellaneous licenses and permits. (See Table 3). The importance of

Table 3.—The Sources of State, Local and Federal Tax Revenues in Colorado, 1930.

State ¹	Amount
General property taxes	\$ 5,887,835
Gasoline taxes	5,787,172
Motor vehicle license fees	1,049,615
Inheritance taxes	900,379
Business license taxes	994,017
General license fees	313,153
Special taxes	263,802
Permits	8,188
Total state taxes	\$15,204,161
Local ²	
Property taxes	\$43,826,000
Licenses and permits	2,170,000
Total local taxes	\$45,996,000
Federal ²	
Income taxes	\$12,048,000
Miscellaneous internal revenue	420,000
Customs	4,971,000
Total federal taxes	\$17,439,000
Combined state, local, and federal taxes	\$78,639,161

¹ Financial Statistics of States, 1930, U. S. Department of Commerce, Bureau of the Census.

² Cost of Government in the United States, 1929-1930, National Industrial Conference Board, 247 Park Ave., New York, 1932. P. 104, 114. Receipts from sources other than taxes are not shown in this table. Figures in this table are based on fiscal year while figures in Table 2 are on a calendar year.

³ National Industrial Conference Board. Cost of Government in the United States, 1929-1930. Financial Statistics of States, U. S. Department of Commerce, Bureau of the Census, 1930.

the general property tax in our system is shown by the fact that this furnishes 39 percent of the state revenue. It is almost the sole source of local revenue, providing the schools, counties and cities with 97 percent of their tax money. The ordinary citizen thinks of his own taxes almost entirely in terms of the general property tax. The only other direct taxes likely to affect him are the automobile license tax and the gasoline tax. When the individual tax bill on general property is large, it is so mainly because of increased local expenditure since only about 10 percent of the general property tax goes to the state. The rest of it goes to the counties, school districts and cities. It is evident that if taxes on general property are to be kept down, either expenditures must be reduced or new sources of revenue must be found and adopted.

Citizens of Colorado are beginning to realize that it is unwise to use the property tax to raise so large a percentage of our revenue in Colorado as it now does, when other methods of taxation could be used to supplement and replace a portion of this source of revenue.

The General Property Tax as the Chief Means of Financing Education is a Failure.—Directly and indirectly general property bears 97 percent of the cost of education in Colorado. Only 3 percent comes from the permanent state school funds. Colorado needs a complete reform in the organization of its public-school system, particularly a change in the method of financing education in order to reduce the burden of school taxes on real estate. It is suggested that the reader glance thru Colorado Experiment Station Bulletin No. 376 on "Taxation and Public-School Finance in Colorado" in which the problem of school finance is discussed.

Defects of the Present Tax System

An analysis of the problem discloses the essential weakness of the Colorado tax system—failure to make sufficient use of the principle of ability to pay. The tax on general property fails to obtain sufficient revenue from the class of persons who own little or no property but who have good incomes. The present general property tax is impractical and ineffective when applied to intangibles, and certain types of tangible property, therefore permitting millions of dollars of property to escape or evade taxation. The manner in which the present tax system is unsatisfactory will be pointed out.

Colorado is spending much money for services of direct benefit to persons as such rather than of the "propertied class." A very large share of the expenditure of government for education, for recreation, for charities, and for hospitals is of direct benefit to persons irrespective of their ownership of property.

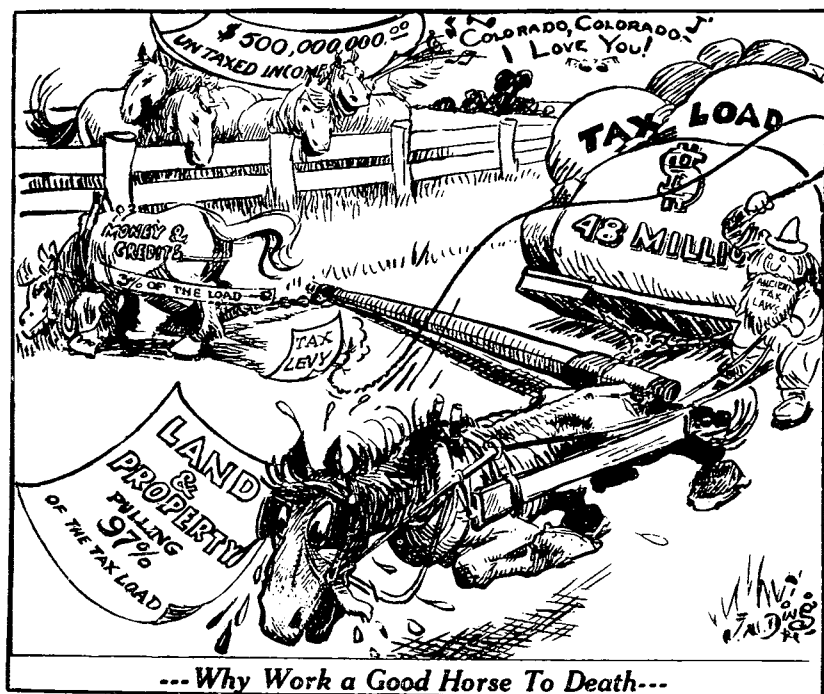


Fig. 4.

COURTESY OF COLORADO STATE FARM BUREAU

Therefore persons should pay taxes whether they own real property or not. Certainly a tax on persons which is paid in money should take into account the money income from which it can be paid. If there is no income, there can be no tax payment. If there is a large money income, a large tax payment can be made.

As the burden of taxation becomes heavier, the importance of properly adjusting the load is increased. Some classes of society are likely to bear more than their fair share while others may escape with a comparatively light load. See Figure 4. In some cases the load becomes so great that it no longer is borne and tax delinquency results as we have pointed out. It is important, therefore, to examine the tax system to see whether taxes are distributed properly among those who should pay.

The equalizing of assessments is very important in obtaining a fair tax burden. Table 4 gives a summary of assessed valuation on all property in Colorado. The assessed valuation of all property in Colorado was 19.3 percent lower in 1932 than in 1930 due to the action of the State Board of Equalization in reducing the valuation of farm lands and improvements 20 percent and city lots and improvements 5 percent in 1931, and additional reductions by assessors and the tax commission in 1932.

Table 4.—Comparison of Assessment of All Property in Colorado, 1930, 1931, 1932.

	Valuation 1930	Valuation 1931	Decrease centage	Per- centage	Valuation 1932	Decrease centage	Per- centage	Decrease from 1930	Per- centage
Agricultural land and improvements	\$ 458,116,090	\$ 372,226,205	\$ 85,889,885	18.75	\$ 347,080,890	\$ 25,145,315	6.76	\$111,035,200	24.24
Coal lands and improvements	16,310,751	15,087,026	1,223,725	7.50	12,299,992	2,787,034	18.47	4,010,759	24.59
Miscellaneous lands and improvements	30,262,061	27,826,629	2,435,432	8.05	25,228,827	2,597,802	9.34	5,033,234	16.63
City lots and improvements	532,111,032	502,319,294	29,791,738	5.60	468,398,546	33,920,748	6.75	63,712,486	12.16
Livestock	58,425,846	48,638,808	9,797,038	16.77	32,374,837	16,253,971	33.42	26,051,009	44.59
Merchandise and manufacturing	108,838,367	99,208,727	9,629,640	8.85	83,694,378	15,514,349	15.63	25,143,989	23.10
Miscellaneous personal property	129,313,776	121,841,231	7,472,545	5.78	98,276,480	23,564,751	19.34	31,037,296	24.00
Total by assessors	1,333,377,923	1,187,137,920	146,240,003	10.97	1,067,353,950	119,783,970	10.09	266,023,973	19.97
Corporations (Tax Commission)	253,084,980	251,310,145	1,774,835	.70	213,209,940	38,100,205	15.16	39,875,040	15.76
Grand Total	\$1,586,462,903	\$1,438,448,065	\$148,014,838	9.33	\$1,280,563,890	\$157,884,175	9.98	\$305,899,013	19.28
Revenue	\$ 49,206,717	\$ 44,863,801			\$ 39,697,480				

¹ Colorado Tax Commission.

Assessed Valuation of All Property in Colorado.—The grand total of all assessed property for 1932 was \$1,280,563,890. The value of untaxed property such as productive intangibles, stocks, bonds, notes and much exempt property amounts to another one and one-half billion dollars. This is the cause of much of our tax trouble in Colorado as it pays little or no tax.

Who Bears the Tax Burden?

Income is generally considered the best single test of ability to pay taxes. From income must come tax payments unless capital is to be levied on and diminished. A comparison, therefore, of the amount of income taken by taxes levied on various types of farm, home, business, corporate and other property gives much information that will help to determine the effects and fairness of a tax system. The following discussion shows the burden of taxation on each of these types of property.

In 1928 the income of the entire population of Colorado is estimated to have been \$876,306,200 according to the National Bureau of Economic Research. In this state the taxes collected by the federal government during the same year were \$16,225,520; by the state government, \$13,379,693; by the local governments, \$44,002,000; making a total of \$73,607,213 taxes collected.¹ The federal taxes in this state constitute a sum equal to \$1.85 out of each \$100 of income of all the people of Colorado; state and local taxes constitute a sum equal to \$6.55 out of each \$100 of income. **Therefore if all the people pay taxes according to their ability to pay, only \$6.55 out of every \$100 of income would be paid in state and local taxes in Colorado. But some people pay no taxes, while others pay much more than \$6.55.**

The Farmers' Tax Burden.—The agricultural industry in Colorado has been in serious economic distress since 1920. The depression has been marked by drastic declines in farm values, farm income, and by a very large increase in farm bankruptcies and sales of farms and ranches for unpaid taxes.

In no period in the history of our country have farmers passed thru as prolonged and ruinous deflation as they have experienced during the past 10 years. They have suffered not only a serious shrinkage of income during the consecutive years far below the standards enjoyed by other elements of the population but also an enormous decline in the value of their capital, as represented by all kinds of farm property.

In 1920 the United States Census estimated the value of farm property in Colorado devoted to agricultural production at \$1,076,794,749. The 1930 report of the same authority places the

¹Cost of Government in the United States 1927-1928. National Industrial Conference Board.

value of farm property in Colorado at \$795,387,096. This indicates a loss of value by the agricultural industry of \$281,407,653 or 26 percent from 1920 value. This is a sum twice as great as the entire public debt of Colorado at the present time.

In 1920 the gross income of farmers in Colorado was 277 million dollars, while in 1930 the gross income is estimated at 155 million dollars, a shrinkage of 44 percent.¹ This, it may be remembered, was a period when almost every other business was rapidly expanding both its volume of business and its profits, and when the incomes of individuals were reaching new high levels.

While farmers have thus been facing a terrific and ruinous deflation which has pushed them closer to bankruptcy and despair, their taxes have been increasing year by year until they are now three times as great as in 1913, the direct taxes on farm and ranch property having increased from \$3,486,115 in 1913 to \$13,336,524 in 1930. (See Table 5 and Figure 5.) There has been some reduction since 1930 as previously noted. In addition to the general property taxes that have already been referred to, farmers as a group pay other direct taxes on automobiles, gasoline and incomes, as well as inheritance taxes and other taxes that bring the direct tax payments of agriculture in Colorado up to approximately 15

¹ Division of Crop and Livestock Estimates, U. S. Dept. of Agr.

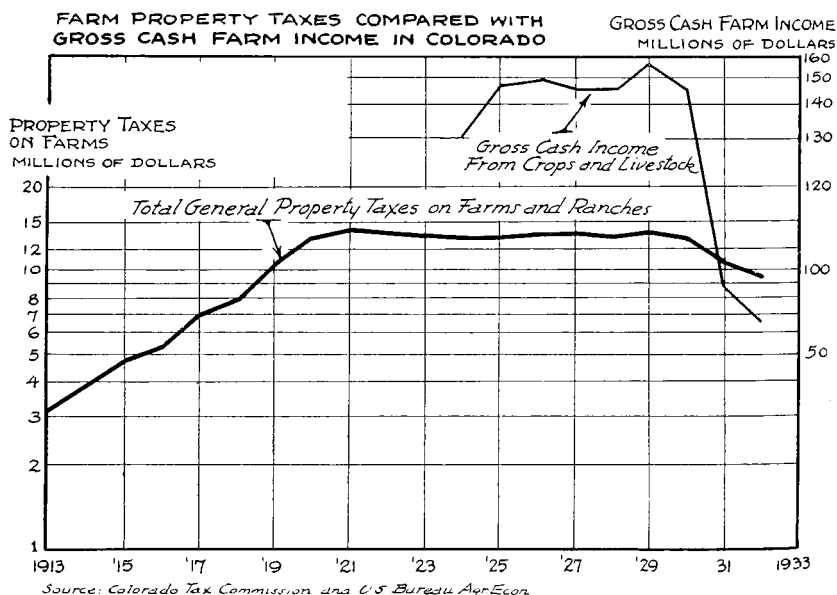


Fig. 5

Table 5.—Total General Property Tax of Farm and Ranch Property of Colorado, 1913 to 1932
Cash and Farm Income from Crops and Livestock and Livestock Products, 1924 to 1932

Year	General property taxes of farm and ranch property	General property taxes of farm and ranch property in percentage of 1913 as base	Gross cash income from crops, livestock, and livestock products	Farm taxes in percentage of gross cash income from farm products
1913	\$ 3,486,115	100.0	No. data	
1914	3,993,006	114.5	" "	
1915	4,898,331	140.5	" "	
1916	5,351,429	153.5	" "	
1917	7,026,660	201.6	" "	
1918	7,967,231	228.5	" "	
1919	10,347,210	296.8	" "	
1920	13,148,809	377.2	" "	
1921	14,081,036	403.9	" "	
1922	13,866,093	397.8	" "	
1923	13,435,573	385.4	" "	
1924	13,079,437	375.2	\$131,385,000	9.95
1925	13,318,615	382.0	147,017,000	9.06
1926	13,552,464	388.8	149,917,000	9.04
1927	13,939,906	399.9	146,533,000	9.51
1928	13,780,754	395.3	145,576,000	9.47
1929	13,914,406	399.1	157,717,000	8.82
1930	13,336,524	382.6	143,169,000	9.31
1931	10,794,959	309.6	88,737,000	8.22
1932 ¹	9,671,816	277.4	66,819,000	14.50

¹ Preliminary (subject to revision). Tax data compiled from Colorado State Tax Commission reports. Income for 1924 to 1932 is gross cash income from crops, livestock and livestock products sold, and is derived from reports of the Bureau of Agricultural Economics, United States Department of Agriculture. In the United States as a whole, gross income from farm production decreased 24.7 percent from 1931 to 1932.

million dollars. But this does not tell the whole story of the disparity which farmers suffer in taxation. The burden of direct and indirect taxes which they are compelled to assume does not include the taxes which are shifted to them by other taxpaying groups. Farmers, in common with all consumers, in the final analysis pay a part of the general and special taxes in higher prices for goods and services.

If the farmers were prosperous they would not feel the increase in general property tax levies as a serious burden. Farm income has dwindled to only a fraction of what it was 10 years ago. It is a combination of lower income and higher taxes that creates the farm tax burden.

Some improvement of the farm situation could be achieved, however, if the severe pressure of local governments on the general property tax could be relieved.

This might be accomplished by shifting some of the functions such as education, road construction and maintenance and social welfare to the state government, which can obtain revenue from other sources than the general property tax. Other methods of relief would be to extend state aid or to increase the share of local governments in state collected taxes. North Carolina and New York are outstanding examples of this method of relieving the farm and local tax burden.

The North Carolina plan of state control of local expenditures has cut the cost of school and road services more than \$12,000,000 annually. The total property-tax bill of North Carolina in 1930 was \$60,000,000; in 1931 it was \$47,750,000—a reduction of over 20 percent. The result has been more economical government, and also a fairer distribution of the burden.

Only to the extent that the farmer is consistently overtaxed should any such program of relief be entered upon. All agriculture wants is a square deal and the equalization of the tax burden.

Our studies of taxes paid by farmers and ranchmen show that they pay from \$20 to \$30 out of every \$100 of income or fully four times as much as the \$6.55 paid by the average of all people of the state.¹

From 1929 to 1930 the index of farm real-estate taxes in the United States declined for the first time in the 17 years covered by the department's index of farm taxes.² If the 1914 tax is taken as a base and is called \$100, the tax in 1929 was \$267; and in 1930 it was \$266.

¹ Whitney Coombs, L. A. Moorhouse and Burton Seeley. Colorado Exper. Sta. Bul. 346, 1928.

² The Agricultural Situation. Bureau of Agricultural Economics, United States Department of Agriculture. Vol. 16, No. 7, 1932.

The assessed value of all farm property in Colorado in 1931 amounted to 30.3 percent of all property assessed in the state.

The assessed value of farm and ranch property in Colorado increased from \$332,806,488 in 1913 to \$435,631,933 in 1931 and \$386,872,647 in 1932. The amount of farm property taxes tripled from \$3,486,115 in 1913 to \$9,671,816 in 1932. The index of Colorado farm and ranch taxes, using 1913 as 100, stands at 277.4 in 1932.

Farm incomes from the production of 1932 are the lowest for any season since 1924.

Farm prices have declined more than non-agricultural prices. Retail prices paid by farmers in 1931 for commodities used in living were 129 and for commodities used in production 122 percent of the pre-war level. Prices received by farmers for grains, fruits and vegetables, and livestock in June, 1932, were only 52 percent of 1914 prices. (See Table 6 and Figure 6.)

Table 6.—General Trend of Farm Prices and Taxes in the United States¹
(1910 to 1914 = 100)

Year	Index number of farm prices	Prices paid by farmers for commodities bought	Farm Taxes
1913	100	100	100
1914	102	101	100
1915	100	106	102
1916	117	123	104
1917	176	150	106
1918	200	178	118
1919	209	205	130
1920	205	206	155
1921	116	156	217
1922	124	152	232
1923	135	153	246
1924	134	154	249
1925	147	159	250
1926	136	156	253
1927	131	154	253
1928	139	156	263
1929	138	155	267
1930	117	146	266
1931	80	126	-----
1932*	52	110	-----

¹ The Agricultural Situation. United States Department of Agriculture. Vol. 16, No. 10, 1932.

*June, 1932.

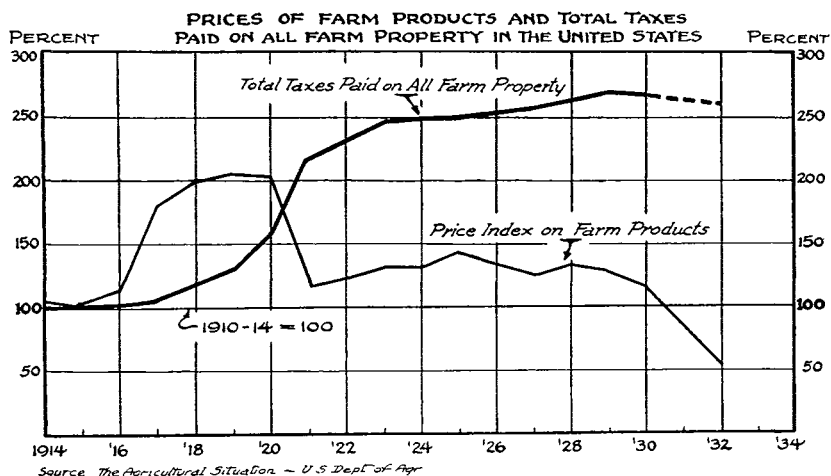


Fig. 6

Farm Real Estate Values Sag.—A continuation of low prices, drouth, world depression and high taxes has been accompanied by a substantial tendency toward writing down the value of farm lands in Colorado. The Colorado average of values in 1931 is placed at 81 percent of the average of the pre-war years 1912-14, compared with 141 percent in 1920. (See Table 7.)

More so than that of any other group of citizens, the farmer's income is directly dependent upon real estate, which is readily accessible to the tax assessor.

Income and Taxation of City Property.—Figures have been collected for rented city property in the cities of Colorado Springs, Fort Collins, Rocky Ford, Monte Vista, Montrose, Delta and Grand Junction.¹

Total taxes including city taxes on 94 business properties accounted for an average of 27.4 percent of the net rent received from these properties.

Taxes on 60 residence properties consumed 34.3 percent of the net rent derived from them.

Farm Taxes Rise and Corporation Taxes Fall.—Assessed valuations of Colorado farm property, including land, improvements, livestock and equipment have increased 54 million dollars in the last 20 years.

In the same period the assessed value of public utilities and railroads in the state, assessed solely by the state tax commission, has decreased 47 million dollars.

¹ Colo. Exper. Sta. Bul. 346, 1928.

Table 7.—Farm Real Estate.¹ Estimated Value Per Acre, in Terms of Pre-war Average Value, by States, March 1, 1931 with Comparisons.
(State Average Value in 1912-1914 = 100 Percent)²

Geographic division and state	1920	1925	1926	1927	1928	1929	1930	1931
	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
Montana	126	75	72	70	71	72	72	70
Idaho	172	123	119	117	116	116	116	114
Wyoming	176	100	95	94	95	96	98	95
Colorado	141	92	89	82	82	82	83	81
New Mexico	144	108	106	108	108	109	110	109
Arizona	165	121	125	123	122	123	123	123
Utah	167	130	129	128	127	127	126	122
Nevada	135	102	99	99	99	99	99	97
Mountain	151	105	103	101	101	101	102	100
Washington	140	113	112	111	110	110	110	108
Oregon	130	110	107	106	106	106	107	106
California	167	164	163	162	161	160	160	158
Pacific	156	146	144	143	142	142	142	140
United States	170	127	124	119	117	116	115	106

¹ All farm lands with improvements. Figures for 1931 preliminary, subject to correction.

² U. S. Department of Agriculture, Bureau of Agricultural Economics, 1931.

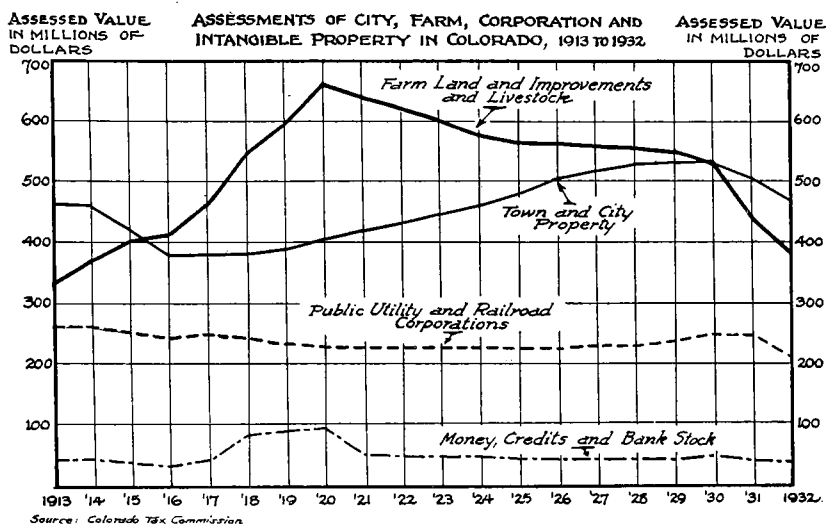


Fig. 7

Assessed valuations of intangibles such as bank stock, money and credits have decreased 10 million dollars since 1913. Town and city property has shown an increase of 3 million dollars during this period. (See Table 8 and Figure 7.)

Table 8.—Comparison of Assessments Between City, Farm, Corporations, and Intangible Property in Colorado, 1913 to 1932.¹

Year	Town and city	Money, credits and bank stock (In millions of dollars)	All farm property (In millions of dollars)	Corporations
1913	465	40	333	260
1914	457	43	376	262
1915	421	38	402	254
1916	379	35	412	242
1917	379	42	468	248
1918	381	85	544	246
1919	386	92	592	232
1920	408	97	661	227
1921	419	50	642	226
1922	429	48	623	226
1923	446	48	602	228
1924	460	45	579	228
1925	479	42	563	227
1926	504	39	560	226
1927	514	38	559	233
1928	526	40	555	233
1929	529	38	548	241
1930	532	43	531	253
1931	502	36	436	251
1932	468	30	387	213

¹ Reports of The Colorado Tax Commission. Farm property includes automobiles and trucks used by farmers.

Tax Commission Cuts Corporation Tax Values 39 Million Dollars.—The State Tax Commission slashed \$38,100,205 from the assessed valuation of railroads, public utilities, telephone companies and other large corporations recently.

The tax commission lopped off 29 million dollars from railroad valuation, 7 millions from the assessed valuation of public utilities, and more than 2 millions from the values of telephone corporations.

Total valuation, as assessed by the tax commission this year, last year and in 1913, are as follows:

Corporations	Assessed Valuation ¹		
	1932	1931	1913
Railroads	\$141,069,820	\$170,411,240	\$174,774,505
Telegraph	1,943,210	2,559,430	1,507,070
Telephone	15,172,370	17,279,370	10,842,640
Utilities	52,170,630	58,214,840	69,540,385
All other property	2,853,910	2,845,265	3,577,395
Totals	\$213,209,940	\$251,310,145	\$260,241,935

¹ Colorado Tax Commission.

Colorado's big tax-paying corporations are now assessed at 47 million dollars less than they were in 1913, when they were assessed at \$260,241,995.

During the interval from 1913 to 1932 approximately 29 million dollars of assessed corporation property ceased to exist, was merged into present companies, or went into municipal ownership, according to the tax commission.

Local Public Utilities.—The local public utilities are divided into four classes for a comparison of assessment. Following is a comparison of assessments by classes¹ for the years 1913 and 1930:

	1913	1930
	\$	\$
Water companies	\$10,783,670	\$ 641,170
Irrigation and water companies	3,567,285	178,750
Gas and electric companies	33,658,310	45,420,730
Miscellaneous companies	21,531,120	11,646,860
Totals	\$69,540,385	\$57,887,510

¹ Colorado Tax Commission.

Of the 13 water companies assessed by the Colorado Tax Commission in 1913, only 9 are now subject to assessment. From 1918 to 1928, six companies assessed at \$10,715,220 were removed from the tax rolls. Most of these became municipally owned property.

In 1913, 19 irrigation and reservoir companies were assessed by the Colorado Tax Commission; in 1930 only five were assessed and in 1931 only two. The year 1930 showed a loss in taxable property for this group of \$3,388,535. Much of this property became municipally owned.

In 1913 the Colorado Tax Commission assessed 18 companies in the miscellaneous group. Only one was assessed in 1930. The loss in taxable value on these companies amounts to \$9,979,740.

Gas and Electric Companies.—In 1913, 64 companies were assessed by the Colorado Tax Commission, while in 1930 only 38 companies were assessed. Notwithstanding this decrease in the number of assessed companies, and the fact that several of these companies were taken over by the municipalities in which they operated, the assessed value of gas and electric properties increased

from \$33,658,310 in 1913 to \$45,420,720 in 1930 or 34.9 percent. Much new property was added in the way of new power plants and pipe lines during this period.

During the period from 1913 to 1930, eight companies changed over from privately owned and operated plants to municipally owned and operated plants. In 1913 these plants were assessed at \$3,062,270. When they became municipal plants, \$1,247,190 was lost from taxable property. The outstanding change was the Colorado Springs Light, Heat and Power Company, assessed in 1913 at \$3,000,000 and in 1925 at \$1,125,000 when taken over by Colorado Springs.

Thirteen companies first assessed by the Colorado Tax Commission in 1913 continued their existence thru 1930.

Fourteen companies came into existence subsequent to 1913 and added to the taxable property of the state.

During the period 1913 to 1930 the Public Service Company of Colorado added 26 companies thru merger and consolidation. The assessment of the original companies which now form the Public Service Company of Colorado amounted to \$18,615,240 in 1913 and \$25,250,950 in 1932. The value of the Public Service Company, however, increased from \$45,006,748 in 1923 to \$100,169,666 for January, 1932, due to new additions and improvements, according to reports filed with the Public Utilities Commission of Colorado. (See Table 10.)

Natural-Gas Pipe Lines.—Six new companies not the result of substitution or consolidation have added over \$5,000,000 to the taxable wealth of the state since 1927. The assessed value was \$5,351,530 in 1930.

Value of Corporations Increased Thru Mergers and Consolidations.—The junking of a large number of unprofitable railroads and public utility plants has had the effect of increasing the value of the parent corporation or holding company in that net income has increased as a result of the elimination of these unprofitable ventures. It is not logical therefore, to expect a decreased valuation in corporation assessments merely because some unprofitable railroad mileage or utility plant has been removed from the assessment roll.

During the period 1913 to 1932 the railroads and public utility corporations of Colorado have spent millions of dollars in new improvements and equipment, according to Interstate Commerce Commission and Colorado Public Utilities Commission reports. Investment has increased in most cases in spite of liberal write-offs for depreciation, obsolescence and retirement or removal of equipment from the state, yet the assessment of railroads has decreased.

State regulation assures an approximately correct statement of the cost of the physical property on the corporation's books. Utility and railroad properties are usually appraised by the Public Utility Commission at the beginning of regulation, and additions since that time are matters of prescribed record.

In the case of public utilities combined into a larger system by a holding company which owns all of their common stock, the property assets of the individual operating companies can be added together and compared with the valuation at which they are carried by the holding company. These assets will be found to agree with the sum of the individual property accounts, with a reasonable allowance added for certain intangibles.

These intangibles consist of additional values created by the fact that the properties can be financed and operated more economically and serviceably as a group than by themselves; in other words, each company's property becomes more valuable by being made a part of a system instead of an isolated unit.

Conservative opinion will generally agree that where a utility company acquires properties it may properly pay for and capitalize this class of intangibles at 10 to 15 percent of its combined plant properties and franchises.

Full Publicity of Corporation Taxing Methods Desirable.—No more important problem confronts the taxpayers of Colorado than the need for a careful study of the method of taxing the railroads and public utility corporations. No change in the method of taxing these corporations has been made for 20 years. For a number of years it has been held that the methods used by the Tax Commission in taxing large corporations should be kept a dark secret. Taxpayers of Colorado have a right to know how our large corporations are being taxed in order that all taxpayers shall get a square deal. The General Assembly should devote itself to considering some method of providing full publicity such as publishing balance sheets that explicitly set forth the operations of these large corporations. (See Tables 9, 10, and 11.)

All the arguments for full publicity seem so obvious that it becomes difficult to understand the blindness of the state in not demanding more publicity. Full publicity of corporation assessments, valuations, earnings and methods of arriving at the taxable value of corporations would have a practical value to the public that would be invaluable in arriving at an equal distribution of the tax burden.

In Colorado, railroads and public utility corporations have two valuations. They have a low valuation upon which they pay taxes assessed by the Colorado Tax Commission, and they have a high valuation upon which they have their rates based.

Table 9.—Public Service Company of Colorado: Total Amount Book Cost of Plant and Equipment.¹

	Year ending Dec. 31, 1931
Electric properties	
Buildings and fixtures	\$ 5,857,834.95
Power plant and sub-station equipment	14,992,974.95
Transmission and distribution lines and poles	20,889,395.77
Transmission and distribution underground	1,448,421.94
Transformers and connections	5,041,512.30
Meters and connections	3,146,390.18
Municipal and commercial lighting fixtures	844,167.54
Office furniture and fixtures	814,463.51
Barn and garage equipment	540,867.17
Miscellaneous equipment	401,554.66
Organization	3,126,525.28
General construction and investment expenditure	1,688,451.44
Total electric	\$58,792,559.69
Gas Properties	
Buildings and fixtures	806,895.61
Works and distribution holder equipment	6,732,063.81
Street mains	5,734,285.72
New service pipes	1,486,670.46
Meters and connections	2,682,027.89
Office furniture and fixtures	105,360.22
Barn and garage equipment	157,938.40
Service governors and connections	1,198,820.37
Miscellaneous equipment	338,165.15
General construction and investment expenditures	264,981.09
Total gas	\$19,507,208.74
Business plant and equipment	30,144.22
Heating plant and equipment	860,712.40
Railway plant and equipment	288,253.23
Ice plant and equipment	259,127.12
	1,438,236.97
Total all classes	\$79,738,005.40

¹ Public Utilities Commission reports.

The above tabulation is an arbitrary distribution of the total accumulated book cost of the company's properties from date of organization to date and does not represent a physical valuation thereof. The company does not have any physical valuation of its property.

Table 10.—Public Service Company of Colorado—Balance Sheet, 1931.¹

	Assets	Balance at end of year 1931
Fixed capital		\$ 79,738,005.40
Cash		728,628.87
Notes receivable		17,571.50
Accounts receivable		4,461,742.71
Interest and dividends receivable		5,069.82
Marketable securities		296.96
Materials and supplies		853,885.39
Prepayments		38,430.77
Total current assets		\$ 85,843,631.42
Investments in affiliated companies		4,633,084.12
Miscellaneous investments		1,957,674.65
Sinking funds		1,905,281.19
Special deposits		239,853.77
Total miscellaneous assets		\$ 8,735,893.73
Unamortized debt and discount and expense		\$ 2,582,585.34
Work in progress		37,944.91
Miscellaneous suspense		381,207.53
Total Suspense		\$ 3,001,737.78
Discount on capital stock		276,102.85
Treasury securities		2,312,300.00
		\$ 2,588,402.85
Total Assets		\$100,169,665.78

Liabilities

Capital stock	\$ 33,356,400.00
Long-term debt	\$ 50,195,650.00
Notes payable	3,053,700.00
Accounts payable	1,311,916.21
Consumer's deposits	393,206.95
Total current liabilities	\$ 4,758,823.16
Taxes accrued	1,369,182.90
Interest accrued	670,164.89
Miscellaneous accrued liabilities	10,135.34
Total accrued liabilities	\$ 2,049,483.13
Retirement reserve	5,085,066.14
Contributions for extensions	210,432.12
Miscellaneous reserves	469,363.19
Total reserves	\$ 5,764,861.45
Profit and loss surplus	4,044,448.04
Total Liabilities	\$100,169,665.78

¹ Public Utilities Commission Reports. The above statement includes a small amount of property in Nebraska which has not been segregated.

Table 11.—Income Statement—Public Service Company of Colorado.¹

Operating Revenue	1931
Electric	\$ 9,579,629.38
Gas	4,114,105.54
Heating	103,474.81
Railway and bus	16,124.43
Ice	28,370.48
Total operating revenue	\$13,841,714.64
Operating expenses	6,352,632.33
Uncollectible bills	60,400.00
Taxes	1,314,586.77
Total deductions	\$ 7,727,619.10
Operating income	\$ 6,114,095.54
Miscellaneous interest revenues	\$ 122,708.44
Cash discount	18,459.99
Income from subsidiaries	380,788.15
Miscellaneous non-operating revenues	994.34
Total	\$ 522,950.92
Non-operating revenue deductions	7,836.23
Total miscellaneous income	\$ 530,787.15
Gross corporate income	\$ 6,644,882.69
Interest on long-term debt	\$ 2,507,342.96
Miscellaneous interest deductions	47,389.27
Amortization of debt discount and exp.	136,036.70
Total deductions from gross income	\$ 2,690,768.93
Net income	\$ 3,954,113.76
Dividend appropriations of income	\$ 6,493,527.06
Retirement reserve	626,166.00
Total appropriation of net income	\$ 7,119,693.06
Balance transferred to surplus (deduction) ..	\$ 3,165,579.30
Profit and Loss Account	
Balance at beginning of year	\$ 6,425,132.62
Balance transferred from income (deduction) ..	3,165,579.30
Miscellaneous debits to profit and loss	784,894.72
Balance at end of year	\$ 4,044,448.04

¹ Public Utilities Commission. Includes about \$25,000 gross income from Nebraska property which has not been segregated.

The following comparisons taken from the official reports of the Colorado Tax Commission and the Public Utilities Commission illustrate how large corporations in Colorado have one value for taxes and another true value for rate making.

The Denver and Salt Lake Railway commonly called the Moffat road was assessed by the tax commission at \$7,630,480 in 1931 and \$6,405,570 in 1932 yet the true value for rate making sworn to by the auditor of the company as reported to the Public Utilities Commission in 1931 was \$16,740,476. Comparisons for other railroads are given in Table 12.

Table 12.—Comparison of Investment in Road and Equipment Within the State of Colorado with the Assessed Valuation of Selected Railroads in Colorado, Year Ending Dec. 31, 1931.

Railroad	Assessed value by Tax Commission 1931 ¹	Total investment Dec. 31, 1931 From Public Util- ities Commission ²
Colorado and Wyoming Railroad	\$2,058,090	\$ 3,956,403.75
Denver and Salt Lake (Moffat Road)	7,630,480	16,740,476.13
Manitou Pikes Peak Railroad	109,980	1,162,947.22
Midland Terminal Railroad	940,940	2,670,487.05
Rio Grande Junction Railway	1,923,370	5,193,178.84
Rio Grande Southern	684,640	8,925,732.71
San Luis Central	100,900	208,367.22
San Luis Valley Southern	59,000	92,525.05
Silverton Northern	136,000	577,702.31
Uintah Railway	600,000	2,380,945.50

¹ Report of the Colorado Tax Commission.

² Reports to the Public Utilities Commission. Information for the Santa Fe, the Burlington, Rio Grande, Colorado and Southern, Missouri Pacific and Union Pacific railroads is not available because investment is not segregated by states. There is no good reason why this information should not be made available.

The same comparisons can be made for the public utility companies of Colorado. To illustrate, the Mountain States Telephone Company was assessed by the tax commission at \$16,071,140 in 1931 yet its value is given as \$40,382,913 in its report to the Colorado Public Utilities Commission. (See Table 13.) A tabulation of the investment, income and rate of earnings indicates that the valuation reported to the Public Utilities Commission is approximately correct as shown by the earnings, while the valuation placed upon the company by the tax commission is apparently too low.

Table 13.—Investment, Earnings and Rate of Return upon Investment of the Mountain States Telephone and Telegraph Company Based Upon its Business Within the Borders of the State of Colorado.

Year	Assessed valuation by Tax Commission ¹	Investment reported to Public Util- ities Com. ²	Net income ²	Rate of return upon in- vestment
1929	\$14,788,680	\$36,746,124	\$1,551,315	4.22
1930	15,649,060	38,532,371	1,957,013	5.08
1931	16,071,140	40,382,913	1,827,219	4.52
1932	14,053,990	.....	.....	.....

¹ Colorado Tax Commission.

² Public Utilities Commission.

Another good illustration is that of the Public Service Company of Colorado whose property was assessed at \$26,207,010 in 1931 by the tax commission yet reports made by the company to the Colorado Public Utilities Commission for rate-making purposes indicates a value of \$100,169,666 in 1931. (See Table 14.) The company shows earnings amounting to approximately 4 percent

upon the investment reported to the Public Utilities commission indicating that the valuation reported to the Public Utilities Commission is reasonably correct and the tax commission valuation is apparently low.

Only one conclusion can be drawn from these illustrations. Either the investment figure for rate-making purposes is too high or the assessed value is too low. If the assessed value is correct then electric power and light, gas and telephone rates are higher than they should be.

Table 14.—Valuations and Earnings of the Public Service Company of Colorado, 1929 to 1932.

Year	Assessed valuation ¹	Investment ²	Earnings ²	Rate of return
1929	\$23,622,230	\$ 89,435,767	\$3,395,625	3.80
1930	25,317,110	94,353,185	3,800,354	4.03
1931	26,207,010	100,169,666	3,954,114	3.95
1932	25,250,950			

¹ Colorado Tax Commission Reports.

² Reports to Public Utilities Commission. Includes a small amount of property in Nebraska which has not been segregated.

Rail Tax Values Cut Twenty-Nine Million Dollars in Colorado.

—Approximately 29 million dollars were cut from the valuation of railroads in 1932, the abstract of valuations for the state shows. Twenty-one railroads show a lower assessed valuation in 1932 than in 1913. During this same period the railroads have spent millions of dollars in new improvements.

Valuations of railroads was dropped from \$170,461,240 in 1931 to \$141,069,820 in 1932.

Table 15.—Railroad Assessments in Colorado in 1913, 1931 and 1932.¹

	1913	1931	1932
Atchison, Topeka & Santa Fe Ry. Co.....	\$ 19,506,970	\$ 23,566,890	\$ 20,697,500
Chicago, Burlington & Quincy Railroad Co.	17,826,670	19,482,860	14,930,440
Chicago, Rock Island & Pacific Ry. Co.....	6,779,700	6,147,660	4,875,300
Colorado & Southeastern Railroad Co.....	388,500	159,690	121,520
Colorado & Southern Railway Co.....	22,229,720	26,765,440	21,169,470
Colorado & Wyoming Railway Co.....	3,171,430	2,038,090	1,478,120
Colorado-Kansas Railway Co.....	75,480	75,480	15,000
Crystal River & San Juan Railroad Co.....	69,035	14,640	11,710
Crystal River Railroad Co.....	194,280	41,320	33,060
Denver & Intermountain Railroad Co.....	431,680	461,640	365,650
Denver & Rio Grande Western Railroad Co.	43,381,410	44,791,810	37,567,210
Denver & Salt Lake Railway Co.....		7,630,480	6,405,570
Grand River Valley Railway Co.....		50,000	42,500
Great Western Railway Co.....	764,500	1,624,870	1,473,110
Greeley Terminal Railway Co.....		10,000	8,000
Laramie, North Park & Western Railroad Co.		179,460	139,830
Manitou and Pike's Peak Railway Co.....	350,000	109,980	85,140
Midland Terminal Railway Co.....	755,180	940,940	676,770
Missouri Pacific Railroad Co.....	5,604,450	5,349,310	4,605,300
Northwestern Terminal Railway Co.....	1,620,000	400,000	320,000
Rio Grande Junction Railway Co.....	3,456,250	1,923,370	1,627,870
Rio Grande Southern Railroad Co.....	2,307,150	684,640	547,710
San Luis Central Railroad Co.....		100,900	85,660
San Luis Valley Southern Railway Co.....	302,850	50,000	40,000
Silverton, Gladstone & Northerly Railroad Co.	15,000	11,490	9,190
Silverton Northern Railroad Co.....	45,000	136,000	108,800
Treasury Mountain Railroad Co.....	47,010	12,000	9,600
Utah Railway Co.....	987,470	600,000	520,000
Union Pacific Railroad Co.....	23,117,360	27,082,280	23,099,780
Railroads abandoned or merged.....	21,355,110		
Total	\$174,774,505	\$170,461,240	\$141,069,820

¹ Reports of Colorado Tax Commission.

According to the Interstate Commerce Commission, Class I railroads paid less tax per mile of line in Colorado in 1930 than in any of the 11 Western States where conditions are somewhat similar. This tax per mile of line operated in the state includes all the tax of the railroads on their investment in terminals, trackage, equipment and other property in the state. The comparison is shown in Table 16, the state with the highest tax per mile first.

Table 16.—Railroad Taxes in the Eleven Western States, 1930.¹

State	State and local tax per mile	Rank
California	\$1842	1
Washington	1480	2
Arizona	1403	3
Idaho	1219	4
Nevada	1163	5
Utah	1142	6
Oregon	1119	7
Wyoming	1071	8
Montana	1016	9
New Mexico	993	10
Colorado	972	11

¹ Statistics of railways in the United States. Interstate Commerce Commission. 1930.

Railroads paid \$4,270,519 in state and local taxes in Colorado in 1930.

Bank Taxation.—An act of congress prohibits the imposition of taxes by states on capital invested in national banks at a higher rate than is imposed upon other competing monied capital in the hands of citizens of the taxing state. The statute referred to is technical, most skillfully drawn, and so involved that few, if any, of the many states which have attempted to comply with its prohibitions and restrictions have succeeded in doing so.

Considering the earning power and stability of earnings of national banks over a period of years as compared with other important groups of taxpayers within the state, it may be shown that there is no discrimination against national banks. Manufacturing and other capital, including that invested in real estate, is bearing a tax load several times greater than that borne by the banks.

The trend in taxation of banks, as well as of other corporations, is unmistakably in the direction of income taxation. Idaho, Oklahoma and Utah, in 1931, joined the states taxing banks on the basis of income.

Building and Loan Associations Escape.—One of the complaints arising under the general property tax is that savings and loan associations in Colorado are doing practically a deposit banking business, escape taxation and are therefore able to offer rates of interest on deposits more attractive than those which regularly chartered banks can afford.

Intangible Property Escapes Taxation.—Federal income tax returns for 1929¹ show that \$48,606,571 was received in income from interest and dividends, \$9,275,488 from rents and royalties, and \$15,221,025 from sale of real estate, stocks, bonds, etc., by Colorado citizens. This does not include millions of dollars of income from tax-exempt government securities. These figures indicate that there is a billion or more of productive intangible wealth in Colorado that escapes state and local taxation.

In 1929 intangibles were assessed by the county assessors at only \$38,056,319 or less than 5 percent of the full value as indicated by federal income tax returns.

In 1930 only about 5.8 percent of the bank deposits were returned for taxation in Colorado. In 1930 there were 257 banks, including state and national in Colorado, with aggregate bank deposits of \$309,991,117. Assessments of bank deposits as returned by assessors for the same year amounted to only \$18,049,516.

It seems fairly clear that 95 percent of the intangible property in the form of stocks, corporation bonds, money and credits escapes taxation. It is also recognized that one of the main reasons for this large amount of underassessment and evasion is that the existing tax rates on general property would be confiscatory on the greater part of this vast amount of wealth. The present property tax on intangibles is vicious. It simply means that present rates are confiscatory, and people will not report for taxation such property as railroad bonds, public utility bonds, corporation stock, and bank deposits where the tax system confiscates all or two-thirds of the income.

The condition of affairs disclosed by this information relative to the escape of intangible property is serious, for it indicates that thousands of people in Colorado having tax-paying capacity, contribute little or nothing toward the cost of government until they die.

The present situation is unsatisfactory because the amount of intangibles on the tax books has shown no increase for 20 years when it ought to show a large increase. Our present system permits 95 percent of the wealth in stocks, bonds and other intangibles to escape or evade taxation. This simply means that one man pays and 19 escape.

Dishonesty and evasion are fostered by our high tax rates, which confiscate the entire earnings in many sections of Colorado. No state has ever successfully taxed intangibles as property.

The only sound and practical way to reach this type of wealth is to tax the income it produces. Taxed on their net income by

¹ Statistics of Income for 1929. U. S. Bureau of Internal Revenue. Washington, D. C.

means of a progressive income tax, they have no better chance of evasion than any other kind of income, and it is almost impossible to shift the tax.

Wealthy Individuals Under-Taxed.—Much of the real wealth of Colorado has not been touched by taxation.

A study of 509 estates appraised for Colorado inheritance taxes during the calendar year 1929 shows that 75.3 percent of the total value of these estates consisted of stocks, bonds, notes and accounts receivable, mortgages and bank deposits which practically escape taxation under our present system.¹

The total value of all estates amounted to \$31,685,781, distributed as follows: Real estate, 21.2 percent; tangible personal property such as jewelry, automobiles, livestock, 3.5 percent; intangible property, stocks, bonds, notes, 75.3 percent.

An analysis of the estates shows that 138 owned no real estate whatsoever and 38 owned real estate worth \$1000 or less. Yet these 176 individuals owned stocks, bonds, notes and bank deposits worth \$5,473,376.

The estates of four millionaires are included, one of which owned no real estate, another less than \$60,000, a third with \$395,000, and a fourth with \$520,000.

Other supporting evidence to show that wealthy individuals evade or escape state and local taxes can be obtained from a study of the United States internal revenue reports. To illustrate this point, cases will be taken from these reports.

Two persons in Colorado with a combined net income of \$713,890 for the year 1927 paid only \$155 in local and state taxes in Colorado, or about 2 cents out of every \$100 of net income. Since these persons owned no real or personal property except possibly an automobile apiece, they virtually escaped taxation in Colorado under our present tax system. They contributed, however, \$86,268 to the federal government in income taxes. If Colorado had a conservative graduated income tax the state would have collected anywhere from \$50,000 to \$75,000 annually from these two individuals.

The Rich Pay Less.—An analysis of the amount of income taken by taxes levied on persons who pay a federal income tax shows that the amount of taxes paid decreases as the amount of income increases. To illustrate, persons with incomes of less than \$5,000 paid 8.6 percent of their taxable income in state and local taxes while persons receiving incomes of \$200,000 to \$500,000 annually paid less than 1 percent of their taxable income in taxes. See Table 17 for payments by other income tax classes.

¹ Inheritance Tax Department, State of Colorado. 1929.

According to a recent government report,¹ the richest man in Colorado with an annual income of between three-fourths of a million dollars and 1 million dollars, paid only \$3,281 in property taxes in Colorado in 1929. This amounts to only a few cents out of each \$100 of net income. The 96 wealthiest persons in Colorado with a net income of over 14 million dollars in 1929, paid only \$1.34 out of each \$100 of net income. Two men with a net income of \$842,000 paid only \$773 in state and local taxes, not any more tax than many of our better farmers pay, yet I doubt very much whether there are any farmers in Colorado who have that income. That is less than 9 cents in taxes per \$100 of net income.

Table 17.—Amount of Income Taken by Taxes Levied on Persons Paying Federal Income Taxes in Colorado in 1929.¹

Amount of taxable income		Total income before deduct- ing state and local taxes	State and local taxes	Percentage tax is of income
Less than	\$ 5,000	\$ 31,178.118	\$2,698.775	8.6
\$ 5,000 under	6,000	9,890.406	524.290	5.3
6,000 "	7,000	8,023.996	348.612	4.3
7,000 "	8,000	6,312.795	272.357	4.3
8,000 "	9,000	5,331.889	247.347	4.6
9,000 "	10,000	4,168.533	207.103	5.0
10,000 "	15,000	15,833.795	583.524	3.7
15,000 "	20,000	8,773.986	285.435	3.2
20,000 "	30,000	9,417.152	268.538	2.8
30,000 "	40,000	5,331.479	129.963	2.4
40,000 "	50,000	3,735.733	71.367	1.9
50,000 "	100,000	8,761.530	188.069	2.2
100,000 "	200,000	4,759.930	64.267	1.4
200,000 "	400,000	2,644.408	19.736	.8
400,000 "	500,000	843.338	773	.1
500,000 and over		2,292.906	36,218	1.6
		\$127,299,994	\$5,946,874	4.7

¹ U. S. Bureau of Internal Revenue. Statistics of Income for 1929.

These few illustrations indicate that many people in Colorado having large incomes are not asked to pay taxes on incomes from salaries, stocks or bonds because of our defective tax system which exempts this type of income. Many of these well-to-do people would be willing to contribute their fair share but our tax system does not require it.² Few people are willing to make voluntary donations to our state and local government.

Farmers, livestock owners, home-owners and merchants in many cases are paying one-third of their net income in taxes compared with a few cents paid by those having large incomes. Many are forced to borrow money in order to pay their taxes or have their farms or homes sold for taxes.

Many inequalities in the assessment of various types of property could be cited, but enough has been shown to substantiate the conclusion that the general property tax does not equally or uniformly reach the many types of property it endeavors to assess.³

¹ Statistics of Income, 1929, Bureau of Internal Revenue, Washington, D. C.

² Compiled Laws of Colorado, 1921, Sections 7195, 7383.

³ See Jens P. Jensen, Survey of Colorado State Tax System, Denver Chamber of Commerce, also Taxes and The Taxpayer, by Clem W. Collins, Denver, Colorado, 1931.

Salaries Practically Untaxed.—The net income of the population of Colorado from wages and salaries in 1929 amounted to 375 million dollars or 42 percent of the total income of the state from all sources. This figure does not include fees or commissions of professional people in the state. This indicates that personal service to others is now by far the largest source of net income to the people of Colorado. (See Table 18.)

Yet in Colorado individuals securing income from salaries, professional earnings and commissions go practically untaxed and make no direct contribution to the local and state government unless they own real estate or tangible property.

Conclusion Is: Taxes Need Equalizing.—This brief review of the tax situation which has been covered more fully in other bulletins of the Agricultural College, the University of Colorado, and by Mr. Jens P. Jensen's report for the Denver Chamber of Commerce, will be sufficient foundation for the conclusion that the tax burden bears heavily upon every section of Colorado. Certainly it has reached the limit of endurance as applied to agricultural property and, in general terms at least, upon every class of industry in Colorado.

CHAP. 2.—WHAT SHOULD BE DONE ABOUT TAXES?

Nobody yet has worked out a complete remedy for the present tax situation. However, a number of things can be done in Colorado to improve conditions.

What Colorado needs can be summarized in a few words. We need (1) better administration of our tax laws; (2) revision of our tax laws to obtain an equalization of the tax burden; and (3) reduction of the total tax burden thru greater economy and efficiency in our government.

Better Administration of Tax Laws Needed.—First, it is necessary to study the administration and distribution of our tax laws, with a view of correcting evils that are found to exist. The almost unanimous testimony of those who have investigated the question is that the general property tax as administered in Colorado is a failure. Remedial proposals call for revision in methods of administering the general property tax, the centralizing of all taxing authority in a single tax commission, full publicity of accounts and methods of making assessments, equalizing assessments, classifying property for taxation purposes, and improved methods of assessment.

We should seek the establishment of full-value assessments in every jurisdiction in which property taxes are employed. It is a well-known principle that in rendering a tax system successful, administration counts for nine-tenths and law for only one-tenth.

Supplement Property Taxes with Other Sources of Revenue.—

Secondly, a revision of our present tax system will equalize the tax burden and provide adequate funds for the necessary needs of the state and local governments.

Colorado needs to revise the present tax system and adopt new taxes to supplement, replace and reduce present property taxes.

Tax revision can be accomplished by the use of a **moderate personal graduated income tax**; by the use of **selected sales or luxury taxes**; by **general sales taxes**; by the use of **production or severance taxes upon coal, oil, oil shale and other mineral deposits in the state**, which upon removal are forever lost as an element of value subject to taxation; by the use of **license taxes**; by **business taxes** measured by net income arising from business carried on within the borders of the state; and by the use of **miscellaneous special taxes**. Such a system would include no measures which have not been thoroly tested by experience in other states. Other states have been able to find other sources of revenue besides the general property tax that rest more evenly on the whole population.

In the last 20 years most of the states have made constitutional changes and passed laws which enable them to raise more revenue from sources other than tangible property.

Since the time of the World War 24 states have adopted personal or corporate income taxes. In 1932, 14 states were taxing tobacco products and 7 states had some form of retail sales taxes. Seven states have sales taxes on the sale of malt and four states tax admissions. Sixteen states have severance taxes and other states have developed franchise taxes, poll taxes, stock-transfer taxes and miscellaneous licenses and fees.

Organizations interested in tax revision should take a definite stand for more liberal constitutional requirements relative to taxation. They might even go so far as to suggest the abolition of all constitutional requirements relative to taxation. In a few states no constitutional restrictions are imposed on state or local taxing power, full discretion being allowed the legislature in its enactment of tax statutes. New York has done this and has one of the best tax systems in the United States. The guarantees provided under the federal constitution, the various bills of rights, and the common law give ample protection to all taxpayers.¹

The fairest basis for taxation is income, not property. In other words, it should be based upon a man's ability to pay, not on how much real estate he owns.

¹ G. S. Klemmedson, Constitutionality of a State Income Tax, under the Usual Uniformity Clause of State Constitutions, Colorado Agricultural College Experiment Station, April 15, 1932.

We must emphasize the necessity for considering the entire financial set-up of the state, involving the budget procedure, uniform accounts, machinery of assessing taxes, principles of a state aid system, reorganization of state and local government as well as the essentiality of a just, fair and modern taxation system. A simple solution of any of these problems cannot be offered.

Economy and Control of Governmental Expenditures.—Third, we need economy and control of governmental expenditures to reduce the tax load. We all agree that it would be fine to reduce the present tax burden thru a reduction of expenditures, elimination of waste and inefficiency. There is no doubt but that thousands of dollars could be saved annually to the taxpayers of Colorado if we had better administration in public office. Studies of our state, counties, municipalities and school districts indicate that much money is wasted thru inefficiency in administration and organization.

Economy, efficiency and control of our government can be brought about by a thoro reorganization of our state, county and school government involving the adoption of a centralized administration form of state government with control in the hands of the governor.

It also means the adoption of an effective budget system, centralized purchasing of supplies and materials, long-term planning and possibly state control over local finances and issuance of bonds.

For the counties it means the distribution of some of the functions like support of schools and roads to the state and the distribution of certain other functions to larger units of area. The provision of sufficient flexibility to permit the adjustment of county organization, under a county-manager form of government perhaps, to the needs of counties of different sizes and types.

Then we need to abolish the district system of school administration, adopt the county-unit system and centralize administration of the educational system.

Taxpayers Organize for Economy in Government.—Since 1922 we have been calling attention to the continual increase in the cost of government.¹ Until the last year or two it has seemed impossible to arouse taxpayers to protect their own property from increased demands of organized minority groups. Now, at last, the taxpaying public is becoming aroused, numerous groups and associations have been formed to study taxes and substantial results already have been obtained.

The root of the trouble lies in the ignorance, apathy and indifference of the great majority of voters. That they are at last becoming alarmed is shown by the growth of local, county and

¹ Report of the Colorado State Board of Agriculture 1922 and 1932.

state-wide organizations and associations now springing up in Colorado. Many leading and prominent citizens of Colorado are at last taking an active part in the study of taxation.

Tax Facts Must Be Driven Home.—This lack of knowledge in regard to taxation can be corrected by organization of the taxpayers. The obstacle lies in the great mass of voters who do not know that they pay taxes. The man who rents his home must be shown that he does pay taxes concealed in the rent. The housewife must be shown that she pays the taxes levied on corporations every time she goes to the store to buy groceries or other necessities. Every farmer pays toward the taxes collected from railroads when he ships a load of livestock or grain, or when he buys a farm implement.

Prices of farm commodities, wages, materials are down or coming down. Yet in public services reductions have as yet been few and far between.

It is interesting to note that from a number of sources in Colorado, investigations of our present tax system are being inaugurated with a view of determining whether there is something radically wrong with the system, and whether it is not possible to devise a more equitable method of taxation, based upon experience of other states.

Fortunately for Colorado so much study of the tax problem has been carried on in this and many other states during the past 10 years that a mass of information on the subject has been brought together by individuals and organizations so that little difficulty should be had in formulating a constructive plan of tax revision suitable to the needs of the state.

Recommendations on Taxation and Expenditures of Government

We urge the organization in each county of a group charged with the duty of promoting a campaign of education and publicity for the purpose of informing the voters and taxpayers of the need for changes in our governmental system in the state and counties thru the enactment of laws that will put into effect the following broad government policies:

1. Broaden the tax system so as to take advantage of all sources of ability to pay taxes, which now make little or no contribution to the cost of government.
2. Change the general property tax so as to make it fairer to all concerned.
3. Change the method of support of various governmental activities. Highway costs should be paid almost entirely from gasoline and motor vehicle funds. In school taxation the wind seems to be blowing in the direction of paying

more and more of school costs from income or other indirect taxation, and of making educational costs a state rather than local responsibility.

4. A scientific assessment and equalization of all classes of property under the supervision of a reorganized well-financed state tax commission with abolishment of the state board of equalization.
5. Abolition of unnecessary agencies, activities and units of government.
6. Consolidation of boards, bureaus and commissions performing necessary and related functions.
7. A uniform system of accounting and fiscal reporting.
8. A uniform budget system for all local governments.
9. A practical business system of centralized purchasing for the state, counties and schools.
10. A unification of administrative authority and responsibility in state and county government respectively whenever practicable.
11. That legislation be enacted providing for a county-unit plan of school administration.
12. Suitable legislation be enacted providing for an optional city-manager plan of government.
13. That long-term planning for all units of government be adopted, i.e., planned investment instead of hit-or-miss spending.
14. Adopt some means of central control of local finances and issuance of bonds.
15. Consolidation of counties with a distribution of certain functions of counties to larger units of area. Adopt a flexible county-manager form of government.
16. Modernize and simplify the constitution by removing some of the limitations and restrictions. Avoid writing legislation into the constitution.

It is further recommended that the following steps be taken looking toward the accomplishment of these objectives:

1. Immediate action by the next general assembly.
2. Creation of an official fact-finding commission by the 1933 session of the legislature, whose function shall be limited to the study of boards, bureaus and commissions of Colorado to make its report to the legislature.
3. Submission of constitutional amendments where necessary.

CHAP. 3.—PLAN TO REDISTRIBUTE THE TAX BURDEN THRU OTHER METHODS OF TAXATION

The remainder of this bulletin is devoted to a discussion of a practical plan to redistribute the tax burden of Colorado so that at least 50 percent of the revenue will come from sources other than real estate and tangible property.

Additional revenue may be derived from the reasonable use of personal and corporate income taxes, sales taxes, severance taxes and miscellaneous licenses, all of which are discussed in this section.

Taxation of Intangibles Under a Classified Property Tax

A few persons in Colorado favor the adoption of a classified property tax system in Colorado for the collection of taxes on intangibles instead of a graduated income tax. The present constitution permits the classification of property according to leading tax authorities who have studied the Colorado constitution.

Not Recommended for Colorado.—The most representative body in the country studying taxation, the National Tax Association, favors the principles enunciated in the "Model Tax Plan" for taxing intangibles by means of a graduated income tax rather than by means of a classified property tax on intangibles.

Classification of Intangibles.—Classification is defined as "the ad valorem taxation of property by its segregation into groups or types and the application of these various classes of different rates varying as between the several classes, but uniform within each class." Classification is, therefore, the differentiation of effective rates. To illustrate: At the present time, low-rate taxes are levied on intangibles in many states and the District of Columbia. The average rate is about 4 mills. The lowest is in California, 1 mill, and the highest in Nebraska, where the rate was changed last year from 5 mills to 8 mills, except on bank deposits where the rate remains 2.5 mills.

Diversity of Success.—As to the success of the classification system, great diversity exists in the various states. In every state, considerable quantities of intangible wealth escape taxation in spite of the low rates imposed. Our neighboring state, Kansas, has found this to be true. On the other hand, more persons and more property are paying taxes than formerly under the higher rates, which fact represents a distinct improvement in tax justice and tax honesty. In most states, there have resulted large increases in the assessment of intangible wealth, but the amount of revenue received due to the lowered rate has sometimes produced less revenue than the former general property taxes. In other states, more revenue has

been obtained. The type of tax administration in effect in a particular state determines, to a large extent, the success of the classified property tax.

Experience of other states shows that full reform of the property-tax situation cannot be accomplished by classification alone. Classification permits income from salaries and wages to escape taxation. Unless classification is accompanied by adequate, efficient administration, the results secured by its adoption are usually disappointing.

Constructing Tax Laws.—A study of the methods employed by other states in taxing intangibles brings out certain practices and principles, among which may be noted the following:

1. Careful supervision of the administration of the tax by the state tax commission;
2. A sharing by local taxing districts in the proceeds of the tax;
3. The non-allowance of offsets for debts;
4. The compulsory listing of intangibles, accompanied by effective penalties;
5. Collection "at the source" wherever practicable.

The Income Tax

If there is to be a readjustment of the tax system in order to lower real estate taxes, it will be found that the personal and corporation or business income tax is one of the new sources of revenue which can be called upon for considerable revenue.

The personal income tax is a tax levied upon incomes which are taxed as a measure of the tax-paying ability of the persons who receive them. This tax is better fitted than any other to carry out the principle that every person having taxable capacity shall make a reasonable contribution to the support of the government under which he lives. It is as fair in principle as any tax can be: under proper conditions it can be well administered by a state, as Wisconsin, North Carolina, Massachusetts, New York and other states have proved; it is a form of taxation which meets with popular favor. A personal income tax is the best method of enforcing the personal obligation of the citizen for the support of the government under which he lives, and is recommended as an important part of a modern system of state and local taxation.¹

¹ Roy G. Blakey and associates, *Taxation in Minnesota*, The University of Minnesota Press, Minneapolis, November, 1932. This is an excellent unbiased report containing the very latest information available on the income tax. It also covers taxes on banks, mines, railroads and public utilities; highway finance, public-school finance, sales taxes, and other types of taxes. The requirements for a good tax system are also discussed. This report should be read by all persons interested in a better system of taxation for it contains much valuable information which should prove of value in solving our own difficult tax problem. It was prepared by a staff of qualified tax experts and economists.

History and Present Use of the Income Tax.—The income tax did not spring up over night like magic, as many people seem to think. Its fundamental principle can clearly be traced back hundreds of years.

Altho income taxes in crude form were levied in ancient China, Egypt, Greece and Rome, and altho modern-type income taxes are now levied by more than 50 leading nations and by 24 of the states of the union, the income tax as it exists today is of comparatively recent date. The first modern income-tax law in France dates from 1914, in Germany from 1891, and in Great Britain from 1842. Federal income tax legislation in the United States, with the exception of two emergency measures of 1862 and 1894, dates from the adoption, in 1913, of the Sixteenth Amendment to the Constitution by which Congress has power "to lay and collect taxes on incomes from whatever source derived, without apportionment among the several states and without regard to any census or enumeration."

The history of successful state taxation of personal income begins, for all practical purposes, with the passage of the Wisconsin Income Tax Law of 1911. Prior to this date various state income tax laws had been tried but none developed which can now be regarded as satisfactory or productive. Lack of experience, combined with administrative difficulties and public indifference seems to have been the principal causes for the general failure of the personal income tax in several states prior to Wisconsin's successful measure.

The failure of repeated attempts to reform the general property tax combined with the rising demand for increased public revenue, gave an impetus which, by 1920, definitely established income taxation as an instrument of recognized effectiveness in the financing of American states.

Growth of the Income-Tax Movement.—It is natural that, faced with a demand for relief from heavy taxation of real property, legislatures should turn to other methods of taxation. The personal and corporation income tax seems to be the favorite proposal in most states which are seeking new methods of raising funds. Prior to 1931, Arkansas, Delaware, Georgia, Oklahoma, Oregon, Massachusetts, Mississippi, Missouri, New Hampshire, New York, North Dakota, North Carolina, South Carolina, Tennessee, Virginia and Wisconsin had personal income-tax laws. All of these states except Delaware and New Hampshire also had a corporation income tax in the form of a franchise or business tax measured by net income. California, Connecticut and Montana had only corporation income taxes.

During 1931, Idaho, Utah and Vermont enacted combined personal and corporation income taxes. Ohio passed a classified

property tax in 1931 that taxes the income of productive investments in intangibles. Some persons classify this law as an income tax. Recently Illinois passed a personal income tax which was held to be unconstitutional by the Illinois Supreme Court. In Washington the voters approved an initiative measure at the 1932 elections providing for a graduated income tax law which applies both to individuals and corporations. At the present time 24 states have personal or corporate income taxes of some kind.

Most of the states already having income taxes have revised and strengthened their previous laws. In Georgia, Missouri and Tennessee the old laws were completely rewritten and modernized. In Georgia the old law provided for a tax equal to one-third of the federal income tax, while in Missouri the old law was a flat 1 percent, and the new is a modern act providing graduated rates from 1 to 4 percent. In Tennessee a modern graduated income tax on individuals has been enacted as a supplement to the earlier special tax on income from certain types of stocks and bonds. Just recently the Tennessee Supreme Court held that the 1931 law was unconstitutional.

Aside from these states there have been increases in the rates in five other states, New York, North Carolina, Oklahoma, Oregon and Wisconsin.

Many changes were also made in corporate income taxes since 1930. Entirely new laws have been enacted to apply to corporate income in four states—Idaho, Oklahoma, Utah and Vermont. In addition there have been rate increases in seven states—Georgia, Missouri, North Carolina, South Carolina, Tennessee and Wisconsin.

The income-tax agitation is strongly evident in California, Colorado, Kansas, Iowa, Indiana, Louisiana, Maryland, Minnesota, Nebraska, Ohio, Pennsylvania, South Dakota, Texas, West Virginia and Wyoming.

In a great many states constitutional amendments are being proposed or referendum authorized for the purpose of determining public sentiment as to the adoption of income tax legislation.

At the 1932 election the Kansas voters approved an amendment which gives the state the power "to levy and collect taxes on income from whatever source derived, which taxes may be graduated or progressive."

In almost every state where income-tax legislation was proposed it was strongly supported by representatives of agricultural interests. Farmers put the Illinois income tax over. Tho the tax mess in Chicago was what really brought the issue up, the Chicago legislators were "ag'in" the income tax almost to a man. Twenty other legislatures considered income tax proposals at the 1931

sessions. They will consider them again in 1933, and some will enact them.

Statements of Those Who Favor an Income Tax.—The points advanced by those who feel that Colorado should adopt an income tax are set forth below. Some of the arguments presented are not so much statements in behalf of income taxation as they are arguments in favor of a modification of the antiquated general property tax.

1. To tap a new source of income.
2. To equalize the burden between property-owning and non-property-owning classes having tax-paying ability. A new general basis of taxation is necessary because the general property tax is a failure in practice, inequitable and unsound in theory, leads to defiance of law on account of unfairness, and causes a disrespect for civic responsibility and duties. The general property tax fails almost utterly to reach intangible property, penalizes those who save and accumulate real estate, and encourages perjury and fraud.
3. To introduce a more accurate method of ascertaining tax-paying ability. The income tax is a good measure of ability to pay for the support of governmental enterprises.
4. To reach incomes from intangibles now escaping property taxes in Colorado. By income taxation the yield of intangible property can be easily reached.
5. To introduce a convenient progressive element into the tax system. The income tax can be easily graduated according to ability to pay, whereas the general property tax has been declared to penalize more heavily in proportion to ability the taxpayer with little property.
6. To tax national banks in compliance with federal statutes.
7. To reach income from property difficult to reach because of federal laws. It reaches a class of taxpayers who would otherwise pay little or nothing to the state or local government.
8. The income tax reaches those who squander their incomes and accumulate no property, thus making them realize their civic responsibility to assist in bearing the tax load.
9. The income tax reaches wages and salaries, professional, managerial and labor incomes which are not reached directly under general property taxation. It is deemed advisable to tax directly the largest possible majority of those who have power to vote increased tax rates, new governmental enterprises and bonded indebtedness.
10. The rates of income taxation can be easily and quickly adjusted to meet emergencies.

11. The income tax when generally applied cannot be shifted, altho the general property tax, except on real estate, may often tend to be shifted.

12. Under income taxation a new business enterprise has a fair chance in its first "lean years" of existence to compete with established enterprises. Where there is no profit, there is no tax.

13. The income tax is capable of centralized administration and can be collected efficiently at a very low cost.

14. We should face squarely the proposition that income is the direct tax basis of governmental expenditure, because the taxpayer must meet his taxes: (1) From present income such as earnings, profits and the like, or (2) from draining upon past income accumulated as savings, and the like, or (3) from the anticipation of future income by means of borrowing.

15. It is more equitable to tax, by means of an income tax, the young man capable of earning a good income than it is to levy a heavy general property tax burden on the cottage and household furnishings of the old man who is no longer able to earn.

16. Ownership of property receives approximately 27 percent of the income of the entire population of Colorado and pays 94 percent of the direct state and local taxes, while income from intangible property, wages and salaries receives 73 percent of the total income and pays only 6 percent of the direct state and local taxes. One way to reach intangibles and salaries is thru an income tax.

Dr. Harley L. Lutz, head of the Department of Economics of Princeton University, and tax expert who prepared the plan for revising Utah's tax system, in discussing the difficulty in reaching intangibles, says that, the best way to do it is by an income tax. "It is the most certain and accurate way. No state seems to have reached intangibles except by taxing the income."

Income Taxes on Banks Recommended.—In 1923 and 1926, Congress authorized the taxation of national banks by state income taxes. The income tax has since grown in popularity as a form of bank taxation. In 1932 thirteen states—California, Connecticut, Idaho, Massachusetts, Missouri, Montana, North Carolina, North Dakota, Oklahoma, Oregon, Tennessee, Utah and Wisconsin—taxed various financial institutions under their general corporation income taxes. Massachusetts, New York and Pennsylvania levy special income taxes on such institutions.

Dr. Lutz says, "It is fairly clear that there is only one method of bank taxation, under the federal law, which permits a state to derive anything like a reasonable revenue from banks and financial

institutions. This is a franchise tax on the bank's net income, with which may be coupled a personal income tax that may extend to the dividends received by stockholders of national banks."

Constitutionality of a Graduated Income Tax.—Many have felt that the present tax provisions in the Colorado constitution would permit both a classified property tax and a graduated income tax. After reading the constitutional provisions and court decisions of other states that have a classified property tax and income tax, I am convinced that our Colorado constitution will permit these types of taxes without an amendment.¹

The uniformity clause of the Colorado Constitution is identical with that of six states—Delaware, Georgia, Idaho, Missouri, Oregon and Virginia—in all of which graduated income taxes have been upheld by their respective supreme courts.

The opposition to an income tax makes the broad contention that income from whatever source derived is property for the purpose of taxation, and that a tax thereon is a property tax. Principal stress is laid however upon the charge that a tax upon income derived from property, such as rent, interest, etc., is a tax upon the property itself, which is unconstitutional in Colorado because not laid uniformly according to value.

A careful review of cases indicates that in only one jurisdiction, Alabama, has the rule that net income from all sources is property been upheld without qualification or restriction. Recently the Illinois Supreme Court took a similar view. The wording of the Illinois constitution is somewhat more restricted than in the case of that of other states.

In countless other instances taxes have been levied upon the income from business and property used therein, which have been held to be excises, and not direct impositions upon the property itself.

Graduated state-income-tax laws have been passed upon in the court of last resort in nine states, other than Massachusetts, Illinois and Alabama, all of which states have constitutional provisions similar to Section 3 of Article X of the Colorado Constitution. In each of these cases the same contention has been made that is urged by some in Colorado, i.e., that income is property within the intent of the constitution and that a tax thereon is a direct property tax which must be laid uniformly by value. But such a contention has been denied by the highest court in each of these states.

A number of states including Kentucky, Massachusetts, Oklahoma, North Carolina, South Carolina, Utah and Wisconsin have

¹ Constitutionality of a State Income Tax Under the Usual Uniformity Clause of State Constitutions. G. S. Klemmedson, Colorado Agricultural College Experiment Station. April 15, 1932. Mimeographed (136-32).

adopted express constitutional provisions for an income tax. Court decisions in these states hold that a tax upon net income is in the nature of an excise tax, rather than a property tax.

The courts hold that income is necessarily the product of the joint efforts of the state and the recipient of the income, the state furnishing the protection necessary to enable the recipient to produce, receive and enjoy it, and a tax thereon in the last analysis is simply a portion cut from the income and appropriated by the state as its share thereof, and, while a tax on incomes includes some of the elements both of a tax on property and a tax on persons, it cannot be classified as strictly a tax on either, for it is generally and necessarily an excise.

Income is defined as: "Something derived from property, labor, skill, ingenuity, or sound judgment, or from two or more in combination."

The term "property" as used in the constitution of Colorado must be taken in its commonly accepted significance of the body of an estate or investment, as distinguished from the annual gain or revenue from it.

The Idaho Supreme Court, in a decision rendered March 11, 1932, in regard to the constitutionality of the Idaho income tax, states, "Upon a complete survey of the field of precedent we have reached the independent conclusion that income is not property for the purpose of taxation." In summarizing their case they decided: (1) A tax upon net income is not a tax upon property. (2) Such a tax is an excise tax. (3) The legislature has power to impose this tax. (4) The income tax was validly enacted. (Ben Diefendorf v. E. G. Gallet, 5859 Idaho.)

The Idaho and recent Missouri case have an important bearing upon an income tax in Colorado because the constitutional provisions are identical in the three states.

During the last legislature the attorney general was asked to give an opinion on the constitutionality of an income tax. The letter and opinion are reproduced here for your information.

April 9, 1931

Hon. Rudolph Johnson
Hon. Moses E. Smith
House Chamber
Capitol Building
Denver, Colorado.
Gentlemen:

In your letter of the 7th inst., you ask the opinion of this department upon the following questions:

"First. Has the legislature authority to adopt a net income tax in uniform or graduated rate or both? That is, can the legislature adopt a uniform rate on all incomes, or a uniform rate on the net income of corporations, and a graduated rate on the net income of individuals?

"Second. Has the legislature authority to use the proceeds from an income tax for state, county, school, road and municipal purposes?"

"Third. Has the legislature authority to provide reasonable exemptions from a state income tax, like living expenses of \$1000.00 for a single person, \$2000.00 for a married couple and \$400.00 for each child?"

You will, of course, understand that no opinion of this office upon the above question would be final or binding upon anyone but that such questions would have to be determined by the courts, in the event an income tax law were adopted and the questions raised. You will further realize that this office has not had time to thoroughly brief these questions and therefore our answers thereto are based upon such hurried investigation as we have been able to make.

Answering your first question, we advise you that in our opinion the General Assembly has power to enact an income tax law providing uniform rates of taxation as to all individuals and corporations. We are further of the opinion that an income tax law providing uniform rates for corporations and a graduated scale of rates for individuals would be upheld by our courts. We find that the courts of several states, whose constitutions contain a uniformity clause similar to our Section 3 of Article X, have nevertheless ruled that their legislatures may adopt income tax laws with a graduated scale of rates. These decisions are based largely upon the proposition that the uniformity clause applies only to *ad valorem* taxation of property and that income taxes are in the nature of excise taxes rather than property taxes. The Supreme Court of the United States, however, has held that an income tax is a "direct tax" on property and it is possible that our Supreme Court would take the same view although we are inclined to the opinion, as above stated, that it would follow the state decisions above mentioned.

Answering the second question above quoted, we advise you that our Supreme Court has held that our constitutional provision (Section 7 of Article X) prohibiting the General Assembly from levying taxes for certain local purposes has reference only to property taxes and does not apply to excise taxes. Since, as above stated, our courts would probably hold that an income tax is an excise tax rather than a property tax, it would follow that our courts would also hold that the proceeds of such a tax might be used for local purposes.

Answering your third question above quoted, we advise you that while Sections 3, 4, and 5 of Article X of our Constitution enumerate certain exemptions from taxation and Section 6 of the same article declares that all other exemptions shall be void, we are of the opinion that said Section 6 only prohibits exemptions from *ad valorem* taxation of property and since, as above pointed out, our courts would probably hold that an income tax is an excise tax rather than a property tax, they would also probably hold that any reasonable exemption from such an excise tax might be allowed.

It hardly need be said that it is highly desirable that a constitutional amendment be adopted definitely settling all of the above questions, and also clearly authorizing the exemption of intangible personal property from *ad valorem* taxation or providing for its taxation at a lower rate than that applicable to other forms of property.

Very truly yours,

CLARENCE L. IRELAND
Attorney General

By:
CHARLES ROACH
Deputy Attorney General

Groups That Should Benefit from an Income Tax.—The farmer, small-home owner, laborer, skilled tradesman, merchant, a small percentage of professional and business men and real estate owners and operators will derive the most benefit from an income tax. These groups contain over one-half of our total number of taxpayers. The general property tax rests very heavily in relation to any measure of tax-paying ability on these people. An income tax if properly drawn, with the proceeds distributed to the localities to lower school taxes, should mean a considerable property tax reduction. In some cases the reduction would be more and in other cases less, depending upon local conditions. As the income-tax principle of taxation develops, much larger savings should be possible.

State Income Tax an Aid to Farmers.—If an income tax is introduced in Colorado it should result in lightening the relative burden of the agricultural classes. This would be true if all or a part of the receipts are distributed to local schools or units of government. It is thru such distribution and thru the increase in yields of the state income taxes that any material relief to agriculture which may come thru this particular source will be derived.

Some relief would also be experienced if all or part of the receipts went to defray the expenses of state government supplanting a corresponding levy on property for state purposes.

Farming is carried on in small units as compared to trade and manufacturing, producing more numerous but smaller incomes. As a result, a portion is not taxed because of the personal exemptions allowed and the remainder falls in the lower brackets of the progressive rate schedules.

A substantial portion of the farmer's income is received in non-cash items which are consumed by the farmers' families and therefore never reported as taxable income. The per capita current income of farmers and ranchmen is considerably lower than that of the non-farm population.

An Income Tax from Five Sources.—Often an income tax is thought of only as taking the place of the property tax upon intangibles. The truth is that an income tax, which taxes the net income of all individuals and corporations is a tax upon income from five general sources: (1) A tax upon the income from intangibles, (2) a tax upon income from personal services, (3) a tax upon income from rents and royalties, (4) a tax upon income derived from the sale of property of all kinds, and (5) a tax on income derived from business. See Table 18 for the amount of income from different sources in Colorado for persons paying federal income taxes.

Table 18.—Sources of Income in Colorado—Individual Federal Income Tax Returns, 1929.¹

Source of Income	Amount	Percentage
Wages and salaries	\$ 68,499,794	35.8
Business	34,136,489	17.8
Partnership	19,173,444	5.3
Profit from sale of real estate, stocks, bonds, etc.....	15,221,025	8.0
Capital net gain	3,466,098	1.8
Rents and royalties	9,275,488	4.9
Interest on government securities	379,105	.2
Dividends	31,178,737	16.3
Fiduciary	1,925,385	1.0
Interest and other income	17,048,729	8.9
Total income	\$191,304,294	100.0

¹ Statistics of Income 1929, U. S. Bureau of Internal Revenue, Washington, D. C.

Summary of the Objects of an Income Tax.—In a brief consideration of the legitimate function of a personal income tax, attention is first directed to the primary object of all taxation—the production of the necessary revenue. With this primary condition satisfied, the second requirement of a tax system is that it shall spread the burden of taxation with reasonable equity and fairness over all the legitimate objects of taxation.

Doubtless everyone will agree that real estate and tangible personal property are, and always have been, bearing the major share of the total burden of taxation and furthermore, that real estate and tangible property are likely to continue to bear a heavy share of this burden even under the best possible conditions. We can consider ourselves fortunate if real estate taxes can be adjusted so that only 50 or 60 percent of our revenue is derived from real estate taxes.

From inventories filed in connection with the administration of the inheritance tax in Colorado, it appears that the ratio of intangibles to real estate in 1929 was about 3 to 1.

It appears that under a very conservative estimate, **one-quarter of the wealth of the state is bearing three-quarters of the burden of taxation.**

Granting the increasing degree of failure of other systems adequately to reach the rapidly increasing wealth represented by intangible personal property and salaries, and that the personal income tax method is better fitted than any other to reach this type of property, the legitimate function of the personal income tax is: **First, to provide additional revenue for which the demand is so urgent, in a manner which will increase with the natural growth of the state; and second, the collection of a more equitable proportion of the public revenues from that source which appears to be least effectively taxed but which is enjoying the most rapid growth, and by this means to relieve real estate and tangible personal property now bearing a disproportionate share of the public burden.**

Will It Raise a Substantial Amount of Tax?—The income tax is practical as a revenue producer for large amounts of new revenue have been collected in the states having income taxes.

The amount collected from an income tax differs, of course, with the nature of the income tax and the wealth of the state. New York in 1930 collected from an individual income tax of 1 percent on the first \$10,000 of taxable income, 2 percent on the next \$40,000 and 3 percent on amounts over \$50,000, a total of \$80,271,316. Wisconsin's total revenue from its income tax on individuals and corporations was \$20,812,439 in 1931. Massachusetts collected \$36,513,679 in 1930. North Carolina got \$7,473,000 in 1930. California collected \$6,500,000 from corporations only.

Less-industrialized states are not able to do so well. Missouri collected \$4,609,000 in 1930, while Virginia got \$4,254,000. Mississippi has done remarkably well for a state with so little wealth, collecting \$1,632,000 in 1930. Arkansas also did well, collecting \$1,202,000 in 1930.

A few states have been unable to derive much revenue from income tax either because of defects in the law, heavy exemptions, or lack of industry. States that are predominantly agricultural are necessarily handicapped in raising enough to affect materially the state revenue system. The Utah and Idaho income tax laws have not been in effect long enough to obtain a fair appraisal of the results.

It has been estimated that a personal income tax with reasonable graduated rates, ranging from 1 to 6 percent, would yield approximately \$3,500,000 to \$5,000,000 in Colorado while an annual business income tax would possibly yield from \$1,000,000 to \$2,000,000. These estimates are based on several out-of-state tax authorities. Naturally in a period of depression the yield will be reduced materially.

Table 19 shows the income tax collections for all states having an income tax from 1925 to 1931.

Per Capita State Income Tax Collections Low.—Income tax collections do not have harmful results under present rates and conditions. The per capita state income tax varied from the low rate of 22 cents in Georgia and Oklahoma to \$13.77 in Delaware in 1930. (See Table 20.) The per capita tax in Wisconsin was \$7.08 in 1931 and \$2.29 in North Carolina. These states, including Delaware, raise a greater percentage of their revenue thru income taxes than do other states. Delaware reduced rates 50 percent in 1931.

On the basis of per capita tax, the average taxpayer in some of the Canadian provinces and England pay five or more times as much income tax as the American income taxpayer.

Table 19.—Income Tax Collections, Including Franchise, License, Privilege and Excise Taxes, based on net income.

	1925	1926	1927	1928	1929	1930	1931 ¹
New England							
New Hampshire	\$ 424,149	\$ 452,997	\$ 506,373	\$ 562,909	\$ 592,882	\$ 633,682	\$ 641,663
Vermont .....	.....	.....	.....	.....	.....	.....	.....
Massachusetts	21,634,718	27,365,343	25,871,652	28,837,788	32,576,550	36,513,679	25,189,000
Connecticut	2,626,842	1,995,924	2,586,851	2,623,012	2,471,113	2,983,967	3,535,000
Atlantic							
New York	71,668,029	76,738,384	98,864,525	115,064,809	136,114,315	144,782,402	105,074,414
Delaware	660,590	1,041,138	1,402,736	1,835,002	2,356,376	3,283,595	537,902
Virginia	1,745,216	1,750,930	3,452,814	3,816,850	4,950,935	4,254,000	4,113,000
North Carolina	3,751,349	6,083,577	6,339,751	8,196,049	7,653,759	7,473,015	5,914,000
South Carolina	1,360,350	1,558,659	1,762,194	2,265,504	2,105,839	1,937,136	1,726,000
Georgia .....	.....	.....	.....	.....	.....	627,941	1,382,000
North Central							
Wisconsin	9,273,935	12,953,990	18,624,651	18,085,600	20,184,305	21,447,486	20,812,439
Missouri	3,606,374	4,336,118	4,029,959	3,697,603	4,252,440	4,608,934	3,420,000
North Dakota	385,654	557,401	611,876	454,547	664,466	481,000	303,000
South Central							
Tennessee	532,643	915,029	682,592	862,006	670,413	1,504,280	1,271,593
Mississippi	795,378	2,150,738	1,826,349	1,649,897	1,663,723	1,632,000	660,000
Arkansas	147,344	2	.....	.....	.....	1,202,000	559,000
Oklahoma	318,892	335,714	362,133	1,038,887	721,053	537,760	356,000
Mountain							
Montana	214,936	288,921	281,210	249,014	344,518	437,908	168,000
Idaho .....	.....	.....	.....	.....	.....	.....	.....
Utah .....	.....	.....	.....	.....	.....	.....	416,000
Pacific							
Oregon	1,520,130	314,247	16,732	767	108	2,431,000	2,522,000
California .....	.....	.....	.....	.....	6,500,000	6,838,000	6,953,000
Total	\$120,666,529	\$138,839,112	\$167,222,448	\$189,290,244	\$223,822,996	\$243,609,785	\$185,554,011

Source: Official Records, Financial Statistics of States, U. S. Census.

¹ Figures in round numbers from Roy G. Blakey and Associates, Taxation in Minnesota, University of Minnesota Press, Minneapolis, November, 1932.

Table 20.—Personal and Corporation Per Capita Income-Tax Collections, by States.

	1925	1926	1927	1928	1929	1930	1931
New England							
New Hampshire	\$.94	\$1.00	\$1.11	\$1.23	\$ 1.27	\$ 1.36	\$1.38
Vermont							
Massachusetts	5.22	6.52	6.10	6.72	7.66	8.59	5.93
Connecticut	1.57	1.24	1.58	1.57	1.54	1.86	2.20
Atlantic							
New York	6.34	6.79	8.65	9.96	10.81	11.50	8.35
Delaware	2.78	4.34	5.77	7.60	9.88	13.77	2.26
Virginia	.70	.70	1.36	1.48	2.04	1.76	1.70
North Carolina	1.51	2.13	2.19	2.79	2.41	2.29	1.87
South Carolina	.76	.85	.96	1.21	1.21	1.11	.99
Georgia						.22	.48
North Central							
Wisconsin	3.26	4.49	6.38	6.11	6.84	7.30	7.08
Missouri	1.04	1.24	1.15	1.05	1.17	1.27	.87
North Dakota	.60	.87	.95	.71	.97	.71	.45
South Central							
Tennessee	.22	.87	.27	.34	.26	.57	.49
Mississippi	.44	1.20	1.02	.92	.83	.81	.33
Arkansas	.08					.65	.30
Oklahoma	.14	.14	.15	.45	.30	.22	.15
Mountain							
Montana	.30	.41	.29	.45	.64	.81	.31
Idaho							
Utah							.82
Pacific							
Oregon	1.76	.36	.02	0.00	0.00	2.55	2.64
California					1.15	1.20	1.67

Comparison of the yields in the individual states should not be made without bearing in mind the dissimilarities in conditions in the different states. Wide variation in the scope of the tax may account for the difference in yields in certain cases. For instance, some of the states tax both corporations and individuals while others tax only individuals. Part of the states impose the tax on certain classes of corporations while others tax all corporations.

The effect of adequate administration upon the yield of the income tax has been amply demonstrated by the experiences in Delaware and Mississippi. If the tax is to be productive of revenues, it must be adapted to the economic conditions of the state. This is demonstrated by the low yield caused by the use of high personal exemptions in Oklahoma, a state in the earlier stages of industrial development. The experience of New York with high personal exemptions shows that in the more highly developed industrial states high exemptions may be used without seriously affecting the yields. Moreover, if the less-developed states expect to secure substantial yields from the income tax, it will be necessary to impose the tax on as many persons as possible by means of low exemptions.

Federal Income-Tax Collections in Colorado.—The federal government collected almost 15 million dollars in 1930 and more than 10 million dollars in 1931 from Colorado. This sum was collected out of earnings from the net income of individuals and business concerns. It was not levied on capital, nor extracted from the little farm, ranch, or home where future citizens and leaders of Colorado are being reared, in many instances upon the hard, bare necessities of life.

Federal-income taxation affects only three persons in every 100 in Colorado. A review of the income taxes collected in Colorado by the federal government in 1929 shows that 31,268 persons or 3 percent of the population received a total income, before deducting taxes, of \$191,304,294. This income amounts to 21.8 percent of the current income of the entire population of Colorado.

Altho these persons received 22 percent of the annual current income from all sources, they paid only 12 percent of the total state and local personal and property taxes in Colorado.

The total state and local property taxes paid by this group amounted to \$5,946,874 in 1929 according to the federal internal revenue department. Therefore persons making income-tax returns in Colorado paid an average of \$3.11 for state and local taxes out of every \$100 income.

Income-tax payments to the federal government on personal incomes amounted to \$2,592,870 for the calendar year 1931, a substantial decrease from 1930 when payments amounted to \$4,023,097.

Table 21.—Individual Federal Income-Tax Returns, Colorado, for the Calendar Years 1916 to 1931. Net Income and Tax.

Year	Number of returns	Net income	Federal tax	Average tax
1916	4,435	\$ 53,854,130	\$1,055,758	\$238
1917	40,627	137,853,875	5,184,948	128
1918	54,160	159,487,951	5,844,925	108
1919	57,526	191,001,999	7,196,593	125
1920	74,198	219,277,184	6,766,900	91
1921	69,676	174,490,980	3,862,862	55
1922	67,463	184,572,407	4,869,555	72
1923	72,366	200,572,724	3,267,732	45
1924	73,350	205,087,973	3,162,736	43
1925	35,808	150,363,411	2,840,926	79
1926	35,110	154,804,655	2,959,248	84
1927	31,727	148,473,486	3,307,180	104
1928	31,091	158,931,875	4,459,057	143
1929	31,268	158,751,528	3,534,404	113
1930			4,023,037	
1931			2,532,870	

Source: Treasury Department, Bureau of Internal Revenue.

Colorado had 181 millionaires in 1929 who made an average tax payment to the federal government of \$10,735 each. These same persons paid an average of \$1,040 in state and local taxes in Colorado. These millionaires had a net income, before deducting state and local taxes, of \$19,181,201. In other words, they paid a state and local tax amounting to 93 cents out of each \$100 of net taxable income. If income from tax-free securities had been included in the 19 million dollars income, their total income would be much larger.

What Will A Business Tax on Corporations Yield?—A tax levied upon the net income derived from business carried on within the state is recommended by the National Tax Association model plan of taxation.

If a state income tax similar to the federal tax were levied, except that net income of corporations be taxed at 4 percent instead of 12.5 percent, a revenue of about 2 million dollars would be obtained in Colorado in normal times.

In case Colorado were to levy a business tax on corporation net income, what should be the rate of tax? The recommendation of the model plan is as follows:

"The actual rate of the tax should be moderate . . . One percent of the net income derived from business done in the locality would be a very light tax; and we believe that, in general, a tax of two percent of such income would be adequate. Exceptional conditions in particular states may justify higher rates, but we believe that the rates in no case should exceed five percent."

Corporations filing federal income-tax returns in Colorado for 1929 paid \$17,541,126 in state and local taxes other than federal income taxes. These same corporations paid \$5,084,003 in federal income taxes.

There were 3,311 corporations reporting net incomes of \$52,349,386 and 2,474 corporations reporting no net income but a loss of \$21,166,262. There were 1,532 inactive corporations.

The total gross income of the 7,317 corporations amounted to \$938,578,916 in 1929.

State and local taxes took 23.5 percent of their \$74,782,775 income before deducting taxes of corporations reporting an income. All local, state and federal taxes took 30.2 percent of their taxable income before deducting taxes.

All state, local and federal taxes amounting to \$22,625,129 took 2.4 percent of the gross income of all corporations filing income tax returns in Colorado in 1929.

Table 22.—Corporation Federal Income-Tax Returns. Historical Comparison 1916 to 1931, Colorado, Showing for Each Year by Corporations Reporting Net Income and Income Tax.

Year	Number of returns	Net income	Federal income tax
1916	7,479	\$57,043,218	\$ 1,115,854
1917	7,618	96,761,318	4,743,980
1918	7,170	74,209,860	5,504,966
1919	6,704	79,287,797	6,237,031
1920	6,812	66,034,834	5,135,565
1921	6,559	34,041,045	2,716,262
1922	6,855	55,835,080	5,508,923
1923	6,344	60,490,802	6,182,816
1924	6,494	60,846,149	7,024,097
1925	6,399	60,443,005	7,077,070
1926	6,580	62,872,037	7,811,708
1927	6,863	47,753,479	5,647,319
1928	7,134	59,932,477	6,108,549
1929	7,317	52,349,386	5,084,003
1930			10,697,522
1931			7,673,312

Source: Treasury Department, Internal Revenue Bureau.

The data for Colorado do not represent what may be called the income of the state, there being no way of ascertaining from the income-tax returns the exact amount of income originating in the state or the amount of tax paid on that basis, as income reported by an individual or corporation in Colorado may have been derived from sources in other states. An individual files his income-tax return in the collection district in which his legal residence or principal place of business is located, and a corporation files its income-tax return in the collection district in which its principal place of business or the principal office or agency is situated, excepting closely affiliated concerns filing a consolidated return.

Conclusion on Yield.—It would seem to be a fair conclusion from the above statistics that personal and corporation income taxes may be depended upon to yield a constantly increasing revenue, mainly from that source which has hitherto been most difficult to tap effectively, namely, intangible personal property and salaries; and it will behoove any state like Colorado still struggling under the disadvantages of the old general property tax, feeling the pressure of the demand for revenue in an unduly increasing burden on real estate and tangible property, to consider seriously the relief available thru adopting a personal and corporation income tax, which may easily be adapted to the local conditions and needs of the state.

A modern system of taxation, efficiently administered, reaching the classes of property now inadequately taxed or escaping taxation altogether, will provide our state with the revenue so greatly needed to keep pace with progress, and will relieve real estate of a portion of the undue burden it is now carrying, and bear heavily upon no individual or business.

This is not theory or speculation. In inaugurating such a system we will not be engaged in an experiment. Other states found themselves in the same condition in which we now are. Other states faced the same problems we now face. These states solved their problems and we have only to follow in their footsteps and profit by their examples. We appreciate that all incomes have been reduced but this is no argument for not adopting a graduated personal income and flat corporation income tax at this time.

Fluctuations in Yield.—Perhaps the chief criticism directed against the income tax in the last year or two has been based on its wide fluctuations in yield. To a greater degree than any other tax, its revenue swings up and dips downward with general business conditions. One possible method of lessening this disadvantage is by averaging incomes over a period of years.

Since 1927, the income used in computing income taxes in Wisconsin is not the net income of 1 year but an average of incomes and losses of 3 years. For example, in 1930 the income assessed was the average of the net incomes of 1927, 1928 and 1929. If the taxpayer suffered a loss in 1 or more of these years, the loss was used as a negative income or deduction in computing the average taxable income.

The 3-year-average system is slightly, tho not greatly, more complicated. It has, however, one great advantage to the state, that of preventing large fluctuations in revenue with the ups and downs of business prosperity. This is very important. A severe depression might cut corporation incomes in half or reduce them even more, and thus cripple state finances severely. The average system has the disadvantage of making it possible that some taxpayers will be called on to pay income taxes in years when they suffer net losses, tho, of course, this would be offset in prosperous years by averaging in the incomes of the poorer years.

Personal Income-Tax Rates.—The kind of income taxes adopted by the various states differs considerably. Ordinarily they have lower exemptions and somewhat lower rates than the federal tax, but this is not always true.

Colorado might well adopt a graduated income tax with rates progressing from 1 to 6 percent on normal income. This would be well within the rates recommended by the National Tax Association model plan. This plan states:

"We recommend that the rates of taxation shall be progressive, the progression depending upon the amount of the taxpayer's net income . . . The lowest rate should not be less than one percent, and under the present conditions we regard it as inexpedient for any state to impose a rate higher than six percent."

Twenty-two states in the United States have adopted personal state income taxes as a means of equalizing taxation. All but four of these states have income taxes with graduated rates that tax individuals in proportion to their ability to pay. Most of them also have corporation state income taxes.

New income-tax laws have been passed recently in six states—I Idaho, Illinois, Ohio, Utah, Washington and Vermont. Entirely new revised state income-tax laws were passed in Georgia, Missouri and Tennessee. Graduated rates of 1 to 4 percent of the net income were enacted to replace old laws in Missouri and Georgia. New York doubled its rates while Wisconsin recently doubled its personal income tax rates on 1931 incomes, bringing the maximum rate to 15 percent on incomes over \$12,000. This surtax is to be in effect for 1 year only and is to be used for unemployment relief. In Tennessee a modern graduated tax was also enacted.

Personal income-tax rates range from the tax of 1 to 3 percent in Delaware to a tax of 1 to 7 percent in Wisconsin and Washington.

Four states—Arkansas, Georgia, South Carolina and Tennessee—have adopted a uniform graduated rate of 1 to 5 percent. Oregon also has this rate, with 8 percent on income from intangibles.

Three states—I Idaho, Missouri and Utah—have a rate of 1 to 4 percent. Illinois and North Dakota have a rate of 1 to 6 percent. North Carolina and New York have a rate of 2 to 6 percent. Oklahoma's state income tax is also graduated, from 2 to 5 percent. In Washington the taxes are applicable to both individuals and to corporations and start at 1 percent on the first \$1,000 and rise to 7 percent on any amount in excess of \$12,000.

Other graduated rates are: Mississippi, 2.5 to 5.5 percent; Virginia, 1.5 to 3 percent.

New Hampshire's income tax is levied only on income from dividends and interest at the same average rate as real estate pays. In Ohio 5 percent is charged on income-yielding investments. In Vermont there is a flat rate also, of 2 percent, with 4 percent on intangibles. Massachusetts charges 1.5 percent on earned income and annuities, 3 percent on capital gains, and 6 percent on interest and dividends.

Corporate Net Income-Tax Rates.—Twenty-one states now have adopted general corporation income taxes as a means of equalizing taxation.

Table 23.—Personal Income-Tax Rates.*

State	Tax rate in percentages	
	1930	1932
Arkansas	1 —5	1 — 5
Delaware	1 —3	1 — 3
Georgia .....	.5 —8.33 ¹	1 — 5
Idaho		1 — 6
Illinois		1 — 4
Massachusetts	1.5 —6 ²	1.5 — 6 ²
Mississippi	2.5 —5.5	2.5 — 5.5
Missouri	1	1 — 4
New Hampshire	Average rate on real estate ³	Average rate on real estate ³
New York	1 —3	2 — 6
North Carolina	1.25 —5	2 — 6
North Dakota	1 —6	1 — 6
Oklahoma .....	.75 —2	2 — 5
Oregon	1 —5	1 — 5 (8 on intangibles)
Ohio		5 on productive investments
South Carolina	1 —5	1 — 5
Tennessee	5 on certain stocks and bonds	1 — 5 general income
Utah		1 — 4
Vermont		2 — (4 on intangibles)
Virginia	1.5 —3	1.5 — 3
Washington		1 — 7
Wisconsin	1 —6 ⁴	1 —15 ⁵

¹ Equaled one-third of the federal income tax.

² One and one-half percent on earned income and annuities; 3 percent on capital gains; 6 percent on interest and dividends.

³ Tax is levied only on income from dividends and interest.

⁴ Surtax for teachers' pensions adds one-sixth less \$37.50 to the tax.

⁵ Surtaxes add one-third less \$37.50 to the tax. Wisconsin at a special session in 1932, doubled rates for 1 year, the revenue from the temporary increase being for unemployment relief.

*James W. Martin. Bulletin National Tax Association, Feb. 1932. And state tax officials. The Illinois and the 1931 Tennessee laws have been declared unconstitutional recently.

Entirely new laws applying to corporate income taxes were enacted in 1931 by four states, Idaho, Oklahoma, Utah and Vermont. Washington adopted a corporation income tax law at the 1932 November election.

Sixteen of the 21 states taxing corporations have flat, uniform rates which apply to all net incomes regardless of their size, while five states have graduated rates, the type usually applied to personal incomes.

Idaho has graduated rates ranging from 1 to 4 percent. Other graduated rates are: Oklahoma, 2 to 5 percent; Mississippi, 2.5 to 5.5 percent; Wisconsin, 2 to 7 percent, with a surtax of one-third on incomes in the highest brackets, which makes the maximum rate somewhat more than 9 percent; and Washington 1 to 7 percent.

Montana has the lowest flat rate at present—1 percent of corporate net income. Oregon has the highest flat tax—8 percent—but offsets reduce the net rate.

Four states—Arkansas, Connecticut, Missouri and Vermont—have adopted a flat rate of 2 percent. North Dakota, Utah and Virginia have a 3 percent rate, while California, Georgia and Tennessee collect 4 percent. New York and South Carolina charge 4.5 percent. North Carolina demands 5.5 percent, and Oregon levies an 8 percent tax.

Table 24.—Corporation Income Tax Rates.

State	Percentages	
	1930	1932
Arkansas	2	2
California	4 ¹	4 ¹
Connecticut	2 ²	2 ²
Georgia	4 ³	4 ³
Idaho		1—4
Massachusetts	2.5 ⁴	2.5 ⁴
Mississippi	2.5—5.5	2.5—5.5
Missouri	1	2
Montana	1	1
New York	4.5 ¹	4.5 ⁴
North Carolina	4.5	5.5
North Dakota	3	3
Oklahoma		2—5
Oregon	5 ⁵	8 ⁵
South Carolina	4	4.5
Tennessee	3	4
Utah		2
Vermont		3
Virginia	3	3
Washington	6	1—7
Wisconsin	2—6 ⁷	2—7 ⁸

¹ Four percent less 10 percent of real estate taxes and all local personal property taxes up to 75 percent of the 4 percent of net income. Minimum tax, \$25.00.

² Based on the Connecticut portion of the amount of income on which the corporation was required to pay a tax to the United States, a minimum of \$10.00 is due.

³ Equalled one-third of the federal income tax. Applied only to domestic corporations.

⁴ Alternative tax.

⁵ Personal property tax offset not exceeding 90 percent. Tax to be not less than \$10 after 1930 (\$25 in 1930).

⁶ A law providing for a tax on banks and financial corporations measured by net income was enacted in 1929 and held unconstitutional by the Washington Supreme Court in 1930.

⁷ Surtax for teachers' pensions adds one-sixth less \$75 to tax.

⁸ Surtaxes add one-third less \$75 to tax. Wisconsin at a special session in 1932 doubled rates for 1 year, the revenue from the temporary increase being for unemployment relief.

Source: James W. Martin. Bulletin National Tax Association, Feb. 1932, and state tax officials.

Should a Maximum Rate Be Fixed Constitutionally?—The steepness of the progression of income-tax rate schedules is a matter of legislative discretion. Certain practical conditions, however, place loose maximums on the progressiveness of the rate schedules of the state income taxes. The state must face the hard fact that if the top rates of state personal income taxes are made too heavy, rich residents of Colorado will remove their residence to states with low taxes. Such a change of residence might make a real tax saving for the taxpayer and a considerable loss of revenue to Colorado. The state, then, is limited to a reasonable rate comparable with our competing states.

If the top rates are set too high, millionaires of Colorado will find it to their advantage to invest a larger proportion of their capital in tax-exempt securities.

In the eastern industrial states where there is a concentration of wealthy individuals, the yield of the tax is more dependent on the rates applying to larger incomes, whereas in an agricultural state like Colorado the rates applying to small incomes are of the greater importance. However, rate limitations should not be placed in the constitution because conditions may change in the next 10 or

20 years which would make it desirable to raise the present maximum rate. Nearly every person in governmental affairs opposes the writing of legislation into constitutions. Details such as rates should be left to the legislature.

If states had uniform income-tax laws or some agreement with the federal government similar to that in effect on inheritances and estates the rate could be raised to as high as 20 or possibly 25 percent. Great Britain has rates amounting to approximately 25 percent of the net income.

Canada has a national income tax of 10 percent on corporations and rates graduating from 2 percent to 50 percent less 20 percent on incomes in excess of \$1,500 or \$3,000.

The provincial income tax on individuals in the Province of Manitoba is on a graduated scale of 2 percent to 50 percent on all net income above exemptions.

What Principle Should Determine the Exemptions in a State Income Tax?—State income taxes ordinarily have lower personal exemptions than the federal tax, but this is not always true. The burden of an income tax is not unfair for reasonable exemptions are granted so that the tax applies only to those whose income exceeds the amount necessary to provide the necessities of life and exempts those whose income is so low that they can barely make a living.

In the "model" state income tax of the National Tax Association the personal exemptions are \$1,000 for a single person, \$2,000 for the head of a family, and \$200 for each dependent.

The amount of exemption permitted by the different states is shown in Table 25.

Table 25.—Personal Income Tax Exemptions.¹

State	Personal exemptions		
	Single person	Head of family	Dependent
Arkansas	\$1500	\$2500	\$400
Delaware	1000	2000	200
Georgia	1500	3500	400
Idaho	1000	2500	300
Illinois ²	1000	2500	300
Massachusetts	1000	1500	250
Mississippi	750	1500	200
Missouri	1000	2000	200
New York	2500	4000	400
North Carolina	1000	2000	200
North Dakota	1000	2000	300
Oklahoma	750	1500	750
Oregon	1500	2500	400
South Carolina	1200	2200	400
Tennessee	1500	2500	300
Utah	1000	2000	400
Vermont	1000	2000	250
Virginia	1250	2800	400

¹ State Income Tax Laws.

² Unconstitutional.

Wisconsin and Washington allow no exemptions. The Wisconsin law until amended in 1927 exempted incomes of \$800 of single and \$1,600 of married persons, which were the lowest exemptions of any of the states. In that year exemptions were abolished, and there

was substituted a deduction of \$8 of tax for single persons who are not heads of families. To married couples or heads of families, the allowance is \$17.50 and there is an additional allowance of \$4 for each child under 18 and for other persons totally dependent upon the taxpayer. The deduction seems the more equitable plan since the exemption comes off the higher brackets and is consequently greater for the large than for the small taxable income. It also results in somewhat higher revenue returns.

By this method Wisconsin provides the same amount of personal exemption for each one of the same marital status, regardless of the amount of his income. Washington adopted the same system in 1932.

Under the laws of most income-tax states, the taxpayers with the largest incomes receive the largest personal exemptions. This is true because \$1000 or \$2000, figured at the rates of the higher brackets, amount to more than the same exemptions figured at the rate of the lower brackets. For example, an exemption of \$2000 to a first-bracket-income taxpayer amounts to a maximum of 1 percent upon that sum, which is \$20, whereas in the case of a taxpayer having taxable net income in the higher bracket, the personal exemption of \$2000 may amount to a maximum of 6 percent of that sum, or \$120.

Wisconsin's exemption of \$8 of tax for a single person is equivalent to 1 percent upon \$800.

It is recommended that the Wisconsin system be adopted for Colorado if and when an income-tax law is written.

Amounts of tax which would be paid by individuals with varying incomes under tax rates and personal exemptions of different states are shown in Table 26.

Table 26.—Personal Income Taxes Due from a Single Person Before Exemption.

State	Amounts of net income					
	\$3,000	\$5,000	\$10,000	\$25,000	\$50,000	\$100,000
Arkansas	\$15	\$ 40	\$165	\$ 740	\$1,975	\$4,475
Delaware	20	50	150	590	1,340	2,840
Georgia	15	35	135	735	1,985	4,485
Idaho	20	40	240	840	1,840	3,840
Illinois ¹	30	70	220	800	2,290	5,290
Mississippi ²	37	102	312	1,072	2,447	5,197
Missouri	25	70	225	825	1,825	3,825
New York	10	50	150	700	1,700	4,650
North Carolina	40	100	335	1,230	2,730	5,730
North Dakota	20	60	250	1,140	2,640	5,640
Oklahoma	45	85	185	685	1,685	3,685
Oregon	20	80	325	1,075	2,325	4,825
South Carolina	18	56	240	990	2,240	4,740
Tennessee	15	40	162	858	2,100	4,608
Utah	22.50	55	205	805	1,805	3,805
Vermont	40	80	180	480	680	1,980
Virginia	26	64	208	657	1,407	2,907
Wisconsin	29	72	276	1,309	3,059	6,559

Source: From tax laws.

¹ Declared Unconstitutional by Illinois Supreme Court, October, 1932.

² Revised 1932.

Who Pays the Income Tax?

Where does the income tax arise and what should be the use or distribution of it, so as to do equity to all of the taxpayers of the state?

The income, upon which a tax should be assessed in Colorado, is a new income upon the five sources of income previously mentioned. It is to all intents and purposes an actual net income. It is therefore, the best measure we have of the prosperity of our people, and their ability to pay taxes.

Concentration of Wealth in a Few Counties.—A comparison of income-tax returns for 1929 shows a heavy concentration of wealth in a few counties in Colorado.

Denver reported 16,642 returns, or 53.2 percent of the 31,268 income tax returns filed in 1929. Other counties reported as follows: El Paso, 2,217; Pueblo, 1,757; Weld, 1,137; Larimer, 791; Las Animas, 598; Mesa, 548; Otero, 528; Jefferson, 385; Morgan, 383; Fremont, 374; Logan, 336; Montrose, 306; and Rio Grande, 291. These 14 counties filed 84 percent of all income-tax returns.

Production of Income a State-Wide Enterprise.—One need not go far into the intricate ramifications of business and commerce, to be convinced that the income of our state, which we have shown is massed in a relatively few districts of the state, is not all produced in those districts. The collection of income is a state-wide enterprise. It is even nation wide.

The income received by the favored localities of the state should not be considered as a perquisite of such localities. It is true that a large proportion of the income, concentrated in the favored strategic centers of Colorado as pointed out above, is produced by the state as a whole and is concentrated into these centers because of the location of factories, stockyards, commercial houses, business offices and residences of the people who were fortunate enough to get or garner such income.

These facts are pointed out to indicate that a substantial tax received from an income tax is not only tapping a legitimate source of ability to pay, to ease up on the property-tax burden, but there is a growing number of persons who believe that to a very large extent, income is the result of state-wide forces and the state as a whole should benefit very largely from any tax levied thereon.

The income tax is a city tax. In Wisconsin, for example, over nine-tenths of the tax is paid from cities and villages, chiefly from a few large cities. It has been estimated that the farmers of Wisconsin pay annually not more than \$150,000 of income taxes out of total collections of 20 million dollars.¹ A study of North Carolina and Mississippi returns also bears out this fact.

¹ Wisconsin Blue Book. 1931, p. 62.

Corporation Officials Pay Largest Income Tax.—What are the relative tax-yielding possibilities of the various occupations and business pursuits in which individual income taxpayers are employed? An answer to this question is supplied by a study of North Carolina income-tax returns, which classifies all taxpayers according to the occupation or pursuit from which they received their largest amount of gross income.

It will be noted from Table 27 that corporation officials contribute more in personal income taxes to the state government in North Carolina than any other group. About 2,800 corporation officials filed returns for 1929. Their total tax contribution was approximately \$382,000 which represented almost exactly a quarter of the entire yield of the tax. It is, of course, obvious that a considerable proportion of the taxable income of this group consists of dividends.

Next in importance to corporation officials, comes the group of individuals who derive most of their income from investments. These individuals are classified in the table under inactive retired persons and trustees of estates, representing persons living on their income from investments. It will be seen that the combined income-tax payments of these two groups for 1929 amounted to more than \$345,000. In other words, they contributed about 23 percent of the total yield of the income tax.

The three classes of taxpayers mentioned above paid nearly half the income tax for 1929. No other groups stand out with particular prominence as regards the size of their tax contribution. An examination of the table will, however, reveal many interesting facts. It will be seen that 4,270 teachers and professors, 12,050 clerical workers, 8,590 skilled employees, and 4,330 unskilled laborers filed income tax returns for 1929. On the other hand, altho the 1930 census shows that there are 279,723 farms in the state, the number of farmers filing income tax returns was only 534. The total tax paid by farmers amounted to \$14,905. It should be borne in mind, however, that a considerable part of the net income against which the above taxes apply was derived from operations other than farming.

Table 28 shows the relative importance of individuals and corporations as sources of income-tax collections. It will be seen that of the \$7,107,000 paid to the State of North Carolina in taxes from 1929 incomes, 77.5 percent, or more than three-quarters of the total, represented the contribution of corporations. The yield of the tax on individuals amounted to only \$1,602,000 which was less than a third of the amount paid by corporations.

Table 27.—North Carolina: Analysis of Individual Income Tax Payments by Occupation of Taxpayer, 1929.

Occupation	Number of returns filed	Tax paid	
		Amount	Percentage of total
Corporation officials	2,774	\$ 382,110	25.1
Retired persons	2,108	203,002	13.4
Trustees	348	142,764	9.4
Merchants and dealers	4,819	99,248	6.5
Manufacturers-owners	271	62,810	4.1
Employees, skilled	8,593	59,657	3.9
Executive, small business	1,966	54,452	3.6
Doctors, etc.	2,056	52,625	3.5
Clerical workers	12,053	51,543	3.4
Salesmen	3,992	49,644	3.3
Attorneys	983	48,800	3.2
Teachers and professors	4,271	32,423	2.1
Bankers	343	16,725	1.1
Real estate dealers	403	15,520	1.0
Farmers	534	14,905	1.0
Laborers, unskilled	4,329	12,778	.8
Brokers, stock and bond	155	12,447	.8
Merchants, wholesale	223	10,250	.7
Contractors	333	9,095	.6
Lumbermen	205	7,263	.5
Auto dealers	230	6,516	.4
Preachers	470	6,258	.4
Newspaper publishers	172	5,195	.3
All other	4,744	165,487	10.9
Total state residents	56,375	\$1,521,517	100.0
Total non-residents	212	80,367*	
Grand total	56,587	\$1,601,884	

*Not included in percentage distribution above.

Taken from North Carolina Report of the Tax Commission, 1930, p. 451.

Table 28.—Analysis of Individual and Corporate Income Tax Returns, North Carolina, 1929.

Character of reporting agents	Total tax paid	
	Amount	Percentage of total
Individuals	\$1,601,877	22.5
Corporations:		
Domestic	1,907,826	26.8
Foreign	3,026,452	42.6
Railroads	571,031	8.1
Total corporations	\$5,505,309	77.5
Grand total	\$7,107,186	100.0

* Report of North Carolina Tax Commission 1930, p. 445.

Altho North Carolina has considerably more than half a million persons 20 years of age or over, engaged in gainful occupations, less than 57,000 submitted individual income-tax returns in 1930 and only 35,000 of these paid any income tax. Further, 6,600 corporations submitted income-tax returns in 1930, but only 3,700 or 56 percent reported taxable income.

Table 29 will show clearly from whom the state income tax in Mississippi is collected each year. The classifications are presumed to need no interpretation, other than to say that the difference between the class labelled "Farmers" and that labelled "Planters" is represented by the difference between the man who puts his hand to the plow and tills the land as compared with the man who has his tilling done by others. In 1928, only 21 farmers paid an income tax in Mississippi, the total amounting to \$335.

Table 29.—Classification of Income Taxpayers in Mississippi.

Class of taxpayers	Number of returns filed	Amount paid	Percentage of total
Merchants	1,891	\$266,627.96	44.57
Executives	1,316	117,097.08	19.57
Capitalists	519	83,852.43	14.01
Professionals	593	54,813.32	9.22
Planters	217	46,498.79	7.77
Clerks and Artisans	1,291	15,491.20	2.58
State and County Employees	119	5,796.70	.96
Railway Employees	280	4,159.98	.69
Educators	180	3,470.82	.58
Farmers	21	335.21	.05
Totals	6,427	\$598,143.49	100.00

Mississippi State Tax Commission, 1928.

Distribution of the Proceeds

What shall be done with the proceeds of the income tax? Shall the state retain the major portion of the yield or shall such be sent back to local taxing districts? If sent back, shall it be returned upon the basis of income-tax payments made, upon a population basis, upon the basis of property assessments, or upon some other basis? Will a local taxing district be permitted to have most of the income yield collected from its confines even tho the net income reported from such districts was derived from many sections of the state in reality?

For example, will a wealthy city receive back most of the income tax which is sent in therefrom, even tho such income was in part derived from great mail order houses with "a store at every rural mail box"? Even tho some of the income "reported" from such city originated in the profit of selling coal dug in Northern or Southern Colorado by weary miners struggling to support their families in mining camps marked by poor homes and poor schools? Tho part of the income reported from such city was really earned by selling millions of head of livestock from the prairies and mountains of Colorado? Tho part of the income was earned by turning millions of tons of sugar beets into granulated sugar? Tho part of the income was earned by hauling cattle, lambs, hogs, sugar beets, fruit, grain, coal, oil and mineral products over thousands of miles of railroads?

Surely we cannot approve the stand taken by certain wealthy counties which demand that they be given back the major portion of the tax on incomes reported therefrom. As stated above, income may be reported from a corporation office within a county but actually be derived from some other territory. A county which claims that it "pays in" a tax on income merely reported from an office therein and that it should receive the major portion of such payment in return, evidently takes a rather narrow and local view in tax matters, and would be expected to ask an equivalent return for all taxes paid in to the state treasury.

But the underlying principle involved—that of demanding due financial return to a locality for taxes sent in from such locality—will not hold in the support of governmental enterprises. Such a principle would demand that a town having no students in a state college be excused from aiding in the financial support of the college. Likewise a county finding itself contributing one-twentieth of the support of the state insane asylum would need to send a few of its sane citizens to the asylum if the quota of inmates from said county dropped below one-twentieth of the asylum's population. Moreover, said county would be expected to "round up" a few more respectable citizens to send to the state penitentiary whenever the county quota, proportionate to tax "paid in," fell short; and if the quota of convicts should ever be in excess of the number the taxes from said county were actually paying to support, then the excess of convicts should be set at liberty.

The fact is that this theory of demanding due financial return to a locality for taxes sent in from such locality to the state treasury does not hold—and it is not supposed to hold. A state has functions and obligations that must be carried out. The taxable ability of the state should be called upon to contribute equitably to the support of the obligations that the state needs to fulfill, and the services of the state should be rendered in such a way as will best promote the general welfare of all the people. This means that the disposition of the services must be primarily upon the basis of need. Hence, there are countless functions and duties of the state that cannot be accounted for in dollars and cents returned to every taxpayer or locality every year, or even within 10 years.

If the proceeds of an income tax are remitted to local tax districts in Colorado according to the payments made therefrom, the inequalities among such districts in ability to carry out necessary governmental services will remain equally as great as under the present general property-tax system.

Should not the state distribute the major portion of the income tax on some basis of equalization to localities where it may be needed to carry out some of the fundamental obligations that the state ought to assume?

Without question an income tax can be administered best by state rather than local authorities. The revenue, however, should be distributed to local taxing units upon some equitable basis. But before the state distributes the major portion of the yield of an income tax to wealthy centers with high incomes, we ought to make sure first that (1) such fundamental obligations of the state as are involved in the guarantee of good educational opportunities for all children are faithfully carried out, and (2) that communities with excessive general property-tax burdens be aided with state

funds to support such other public enterprises as contribute to the general welfare of all the citizens of our state.

The percentage of the general property tax going to the Colorado state government amounts on the average to about 11 percent of the total collected by means of this tax. If the income is sufficient to make possible the discontinuance of all state levy of the general property tax and is used for this purpose, a maximum average reduction of 11 percent in the levy on general property is possible. Thus only slight relief is possible, if the state government uses the whole proceeds of the income tax. In several states, at present, a portion of all the proceeds is distributed to local units. It is thru such distribution and thru the increase in the yields of state income taxes that any material relief to agriculture which may come thru this particular source will be derived.

Distribution of Proceeds of State Income Taxes in Other States

Arkansas.—The first \$500,000 is distributed annually to charities fund; the next \$750,000 to the common school equalization fund; and all the remainder to a special fund to be used solely for the purpose of reducing the state tax on property.

Delaware.—The income tax is used for the building, maintenance, operation and repair of the public schools and maintenance and operation of the public-school system of Delaware. The income tax is the only direct tax for the support of the public schools by the state or by the counties.

Georgia.—This tax was one of a number of revenue measures enacted for the specific purpose of providing school revenues without increasing property taxes. Proceeds are used for current expenses of the state and to reduce the property-tax rate in proportion to the excess revenue that is realized from the income tax.

Idaho.—Revenue used to reduce state property tax.

Illinois.—Paid into public-school fund to reduce property taxes.

Massachusetts.—The state sets aside from the proceeds of the income tax whatever amount is needed to meet the claims of schools under state-aid laws. The remainder is returned to localities according to state valuation and may be used for schools. In 1930, \$5,402,809 was distributed to schools and \$24,000,000 to the localities.

Mississippi.—The proceeds are paid into the state general fund of which nearly half goes for schools.

Missouri.—State general fund of which one-third goes to schools by general laws.

New Hampshire.—After the payments of expenses of administration the balance is distributed to the localities where the owners of the taxable income reside.

New York.—\$250,000 is retained for refunds; 50 percent of the remainder is paid into the state general fund; the remaining 50 percent is distributed to the counties of the state, according to the assessed valuation, one-third of which may be distributed to the school districts. The state government distributed among the counties over 89 million dollars for local school purposes in 1930. This money was obtained largely from the personal and corporation income taxes and was apportioned among the counties to relieve the local tax on property.

North Carolina.—Income taxes are for the expenses of the state government, the appropriations to its educational, charitable and penal institutions, pensions for confederate soldiers and widows, the interest on debt and for public schools. The income tax provides part of the expenses of operation of all public schools for the term of 6 months for which an appropriation of not to exceed \$16,500,000 is provided annually. An additional \$1,500,000 is appropriated annually to the counties as state aid for the cost of operation of schools beyond the 6 months constitutional term. This is all included in the income-tax act of 1931.

North Dakota.—Distributed to state general fund.

Oklahoma.—Three-fourths of the revenue derived from the income tax is used for the support of common schools and one-fourth for the expenses of state government. Purpose of the act is to provide for the reduction of property taxes thruout the state.

Oregon.—The proceeds of the tax are used for state purposes.

South Carolina.—A major source of state general fund from which school appropriations are made.

Tennessee.—A major source of state general fund from which school appropriations are made.

Utah.—Five percent of the revenue is retained for the payment of refunds. The balance is allocated as followed: 75 percent to the state district-school fund and 25 percent to the state general fund. State property-tax rates are reduced in proportion to the revenues received from the income tax.

Vermont.—Distribution among towns, the consolidated school fund, and current state expenses to reduce the state taxes on property.

Virginia.—Proceeds of the income tax are retained by the state.

Washington.—The revenue from the income tax must be used to reduce or eliminate the state property levy.

Wisconsin.—The proceeds of the income tax are distributed 40 percent to the state, 10 percent to the county, and the remaining 50 percent to the town, city or village. The law provides that after allowing for expenses of administration and collection of the income

tax, a sum shall be set aside from the state's share of the proceeds sufficient to meet the appropriations for state aid to graded and high schools. The remainder of the state's share of the proceeds is used toward the reduction of the general property tax levied for the support of the university, the normal schools and the common schools of the state. Provision is also made for use of the proceeds returned to the localities in whole, or in part, for school support. The proceeds of a surtax, levied at rates equal to one-sixth those of the regular income tax, on all taxable incomes of \$3,000 or more, are credited to the teachers' retirement fund.

Will the Income Tax be an Additional Tax?

It has been said that states with state income taxes have just as high or higher state levies on general property as states that have none. If this is so, what's the use of an income tax? It is argued that an income tax will increase taxes rather than reduce property taxes. This is a mere statement, not a fact.

Is the tax an additional tax upon the owners of tangible property or does it reach different or additional ability to pay which should in equity and justice be reached in order to make the burden of tax more equitable?

Referring again to the classification of income on the basis of the five general sources from which it is received, it will be seen that the income tax obtains a revenue from the owner of intangible property and from the individual who receives income from personal services. The income from these sources is substantial in Colorado, as already indicated. The revenue from income from personal services cannot be obtained without the enactment of an income-tax law.

Experience shows that, in the main, the income tax is not an additional tax upon property owners.

It may seem to property owners that the proposed income and special taxes would require them to pay these taxes in addition to property taxes. This would be the case in years when their net income exceeds exemptions. But the important fact is that **the income tax would reduce their property tax levy** because, under the income and special taxes, many persons who now pay little or no tax would be required to bear a part of the cost of government. Under the present system, property bears nearly the whole burden while a privileged class, whose number is constantly increasing, escapes taxation.

No one who advocates the income tax does so as an additional tax, but rather as a substitute for part of the property tax. But it is possible and in every way desirable and important to reduce the property tax by as much as the income tax will produce in Colo-

rado, by distributing the proceeds thru a state fund which will relieve much of the present school tax burden on property and real estate or by eliminating the present state tax levy on property. To secure reduction in the present property tax, there must be something substituted. It is impossible to replace entirely the present property tax of over 50 million dollars by an income tax, and no reasonable person proposes such a proposition.

Many States Cut Property Levies with Income Tax.—Adoption of state income taxes has made it possible to reduce property taxes in several states. In other states income taxes have kept property taxes from increasing.

The average per capita state property tax in 19 states having state income taxes was \$1.39 in 1930 compared to \$3.90, the average in the 29 states having no state income taxes. In other words, property owners in states having income taxes were required to pay only 35.6 percent of the average state property taxes in the states having no state income taxes.¹ The figures cited are contained in a recent bulletin on financial statistics of state governments.

Of the states listed as having income taxes, all but one had a lower per capita levy on general property than Colorado. The exception was New Hampshire. The per capita state property tax in the other states having income taxes ranged from \$.11 in Delaware to \$5.36 in Oregon.

In Colorado the state property tax amounted to \$5.70 per person in 1930, while the average of all states in the union was \$2.83. The per capita state property tax in states not having income taxes ranged from none in Pennsylvania to \$15.14 in Arizona.

Apparently some states can get along without taxing property for state purposes. North Carolina, California and New York, for instance, have been able to abolish entirely state property taxes by legislative enactment as the result of revenues obtained from state income taxes, thereby distributing the tax burden to include others than property owners.

The income tax will help relieve the burden now placed upon property owners. In 1920, when North Carolina levied no state income tax, the general property tax produced 85 percent of the total state and local tax revenue. This percentage dropped until in 1929 property paid just about 60 percent of the total state and local taxes. The income tax represented 44 percent of all revenues coming into the general fund of the state of North Carolina in 1930.²

¹ Financial Statistics of States. U. S. Department of Commerce, Census Bureau, 1930.

² Fred W. Morrison, Executive Secretary, Tax Commission, State of North Carolina, 1930.

Does the Income Tax Drive Out Business?

The effect of income taxation upon business in Wisconsin is given by Mr. C. D. Rosa, member Wisconsin Tax Commission,¹ who says: "There would be no thought of needing to defend the tax policy of Wisconsin, if it were not for the adverse and unjust criticism to which it has been subject, from time to time. It is with a feeling of chagrin, amounting almost to shame, that one has to admit that much of this criticism has had its beginning with citizens of our own state. The vast majority of our citizens are loyal and honest, but some have apparently been not only disloyal but dishonest, if one is to judge by the stories, which have come from within our borders and gained currency, depicting us as a decadent state, decaying industrially and with no moral sense of equity and justice in matters of taxation. These stories, expanded and added to in the usual way, have been extremely effective, I fear, in preventing other states from bringing their tax systems a little more in line with the principle of ability to pay.

"An examination of the facts in the case shows that Wisconsin is far from being the limping invalid among the sisterhood of states, which the enemies of our tax system have indicated. When tested by every available method and when compared with the whole country and with our neighboring and competing states, the prosperity of the state as a whole has been substantial and its manufacturing industries have made very satisfactory and gratifying progress."

"When compared with the United States as a whole and with six competing states by means of thirteen tests applied to industrial prosperity, Wisconsin appears as no beggar for consideration. In these tests which include, among others, relative increases in federal income tax collections, in the net income of manufacturing corporations, in the value of manufactured products, in per capita building construction, in savings deposits, in life insurance, in building and loan assets, in number of workers in manufacturing, in wages paid in manufacturing, in electricity generated, etc., Wisconsin was placed first, in six of the thirteen tests, second in three, third in one, fourth in one, and fifth in two. Its ranking for the combined thirteen tests was first. While these figures covered the period prior to 1927, later data available indicate that Wisconsin is maintaining or bettering its relative position. The depression has struck the state with less severity than most other states, due in part to the diversification of industry in the state. In short, while no one can say what Wisconsin's industrial growth would have been, had we had a different system of taxation, the presence of the income tax certainly has not prevented a very satisfactory growth in state industry and state prosperity."

Taxes Unimportant in Determining Location of Industries.—

Objection is made by some persons to the proposed business income tax on the ground that it will drive industries out of Colorado.

Fortunately this is a fact-finding age and the progressive business man demands facts prior to the formulation of conclusions.

A study of the industrial development in the United States and Canada made for the National Electric Light Association by the research department of the Metropolitan Life Insurance Company

¹C. D. Rosa, A Few Comments On a Few Tax Problems, Bul. Nat. Tax Assoc. Vol. XVII No. 4. 1932.

²G. L. Leffler and H. M. Groves, Wisconsin Industry and The Wisconsin Tax System, Bulletin No. 1, Bureau of Business and Economic Research, The University of Wisconsin, Madison, Wisc., 1930.

in 1927 covering 75 percent of the city population of the United States and two-thirds of the urban population of Canada indicates that taxes rank twelfth as a factor in the location and relocation of plants.¹ This indicates that taxes are relatively unimportant as a reason for influencing industries in the selection of a location for a plant.

The ranking of reasons for all gains in industries for the United States as a whole is shown by the following list:

1. Markets
2. Labor
3. Transportation
4. Materials
5. Available factory buildings
6. Personal reasons
7. Power and fuel
8. Cheap rent
9. Near related industries
10. Living conditions
11. Financial aid
12. Taxes
13. Mergers and conditions
14. Cheap land
15. Near parent company
16. Banking facilities

The factors most commonly influencing the selection of a particular site for a plant were those involving markets, labor and transportation.

A study of the reports on plants lost, from 1,934 cities embracing 5,903 plants, indicates that states which do not have an income tax lost as many plants as states which have an income tax when the population and other factors are considered.

Industries that have moved from one location to another to escape burdensome taxes have sometimes discovered, too late, that the expected improvements did not materialize. The following two cases are somewhat typical:

A manufacturer in one of the North Atlantic states was solicited by a distant community to transfer his plant. He was told that he would be given tax exemption for 5 years, and even at the end of the 5-year period he would be paying not more than \$2.95 a hundred, as compared with his existing rate of \$11.60.

This argument and certain others induced him to move, and the plant was transferred to the new location.

¹ Industrial Development in the U. S. and Canada. Policyholders Service Bureau of the Metropolitan Life Insurance Co., N. Y., 1928.

He was given tax exemption, as promised, but, unfortunately, the exemption applied exclusively to taxes upon land and building, and in no way affected the income, the nuisance, the privilege, and the multitude of other taxes that were levied against him.

At the end of his first year he found—even with exemption on land and building—that he had paid out more money in taxes than he had at his previous location.

The second case involved a manufacturer who was induced to move from one state to its neighbor largely because he was shown by an analysis of all taxes paid in each state that, for the plant he was operating, his cash payments per year to all taxing bodies would be less in the state which was soliciting him than in the state in which his original plant was located.

The removal took place; the business was established in the neighboring state; and at the end of a few months a casting up of accounts proved to the manufacturer the truth of the representations that had been made to him prior to his removal. But altho he was paying less money for taxes, this advantage was more than nullified by the vastly inferior service and facilities provided by the governmental bodies in his new location.

The water supply had to be supplemented by wells. Police protection was so inadequate as to require the use of special police and an armored car for payrolls. Burglary insurance likewise was higher. The streets around the plant were cleaned only when the janitor force of the plant did the job.

To make a long story short, his total costs—counting private as well as tax expenditures—were greater than in his original location, and he was getting considerably less for the money expended.

Tax rates, or the relative amount of money paid to all taxing bodies, are no criteria for new locations.

Locations should be analyzed to determine what the taxpayer gets in services and facilities for the dollar he delivers to the taxing bodies.

Can the Income Tax Be Shifted to Consumers?

The argument is advanced by some persons that the proposed income tax will raise the prices of goods and therefore shift the tax to consumers.

Analysis of the income-tax returns of 4,644 corporations¹ covering the period 1918 thru 1925 made by the National Industrial Conference Board, a group of business men, showed that under the typical and prevailing conditions of business operation, the federal corporation income tax cannot be recovered from purchasers of

¹ The Shifting and Effects of the Federal Corporation Income Tax. National Industrial Conference Board. Vol. II, p. 160-166.

products and services of corporations, directly or indirectly thru increased prices.

While among such corporations there may have been cases in which the tax was shifted, the general tenor of the evidence was to support the belief that, in the main, the federal corporation income tax ultimately resulted in a reduction of corporation profits and was not shifted to others in the form of increased prices. In this respect an income tax is different from a sales tax which is usually shifted to the consumer thru higher prices for commodities.

Is the Administration of an Income Tax Expensive?

Opponents of the income tax say that it has created a huge army of expensive employees. A study of the administration of income-tax laws in other states shows that the income tax can be administered in an efficient manner at a very low cost with a reasonable number of employees and that it is not necessary to create a huge army of employees.

Good administration is of prime importance if any tax is to succeed.¹ In no case is it more important than in collecting general taxes on net income. Modern business often involves large amounts of capital and it is not limited to state or even to national boundary lines. The determination of net income and its allocation to particular areas is often a very complicated matter—too complicated for most of the untrained, locally elected assessors.

Wisconsin has been the leader in the modern state income-tax movement, and her success has been due largely to the form of her administration and the vigilance of her tax commission. The main reason for the failure of such taxes in other states in earlier years had been that the administration was nearly always put in the hands of local officials without proper state supervision. Wisconsin provided that her income tax should be administered under the supervision of the state tax commission, which was itself an appointive body. The tax commission was authorized to divide the state into districts and to appoint supervisors over each district. The assessors of income were put under civil service and their compensation and tenure were put in the hands of the tax commission. The commission divided the state into 40 districts² and appointed an assessor of incomes over each district. They and their assistants supervised the assessment of individual incomes; the assessment of corporate incomes was kept in the hands of the tax commission itself at its central office. Everything possible was done to avoid friction, to secure competent assessors and auditors, to make all appointments and tenure depend upon merit, and to reduce political

¹ Roy G. Blakey, *Taxation in Minnesota*, The University of Minnesota Press, Minneapolis, Nov. 1932, p. 492.

² Now reduced to twenty-two.

influence in administration to the minimum. To the surprise of everyone except the people of Wisconsin the new tax succeeded.

Other states adopting income taxes have been successful or not largely in proportion to the degree in which they have followed the lessons of Wisconsin's administrative experience. The yields in Massachusetts and New York have been most conspicuous, while those of Missouri, Oklahoma and other states maintaining the old decentralized system of administration have been much below what could be expected in states of such wealth if better methods were followed.

It should not be forgotten, however, that strictly agricultural states which have comparatively few and unimportant centers of industry, commerce and finance cannot expect large yields from an income tax, even tho it may be well administered. For example, even a well-supervised administration in North Dakota cannot secure large amounts from an income tax with ordinary rates and exemptions, tho it can secure approximately as much as is collected by the federal government.

The proper administration of the income tax is so important that it seems worth while to add the following suggested details:

Wisconsin employs seven auditors in the central office to assess current corporation returns and to supervise audits made by field auditors. There are 29 field auditors employed on corporation audits. Thirty field men audit the returns of individuals, partnerships and fiduciaries. The income-tax assessors in Wisconsin spend from one-third to about one-half of their time supervising local property-tax assessors. The National Tax Association committee on the model plan of state and local taxation, in calling attention to Wisconsin's successful income tax, lays no small stress on the work of the district assessors, who are "bringing the administration of the law home to the people of the several districts." This committee commended Wisconsin, too, for utilizing the district income-tax assessors as supervisors of local property-tax assessors within their districts. These district assessors, it should be kept in mind, are appointed by a central state authority and are responsible to that authority. They may be moved from one district to another if it seems desirable, tho this is not done frequently. They are not dependent on the votes of the people of their district.

Methods Used in Other States.—Massachusetts followed Wisconsin in dividing the state into districts and in putting each district under an income-tax assessor appointed by a central authority. A staff of auditors is employed by the state, some stationed in the main office and others in district offices. Massachusetts' state income-tax unit prepares tax forms to be sent out, and from data

received on them concerning taxpayers' incomes, it assesses the income tax, bills the taxpayer, collects the taxes and distributes them back to the localities. The collection section is used also for other tax collections. The income-tax unit has a "mobile force", about 60 persons who aid individuals in preparing returns at the beginning of the year. Then the same crew is put on the assessing of the tax, receiving collections, and the gathering of statistics, in turn, as these functions become necessary.

New York has two bureaus under the state tax commission engaged in income-tax work, one for the personal income tax and the other to collect the corporation tax. New York has seven districts, each under a district director appointed by the commissioner of taxation and finance. All employees in New York are appointed under civil service rules from eligible lists made up of those who have qualified by competitive examination.

In each of the three states where the income tax has been administered best and where yields have been greatest, employees are selected on a basis of merit and fitness. They are trained in accounting and understand the law. They are coordinated thruout the state and supervised by a central state tax administrative unit. In each of these states, too, there is a field auditing force.

In Massachusetts the tax officials calculate the tax due from information which each taxpayer submits under oath regarding his own income. The other states follow the practice of the federal government in allowing the taxpayer to calculate his own tax. The latter method eliminates a great deal of detail work but necessitates careful auditing. Massachusetts' cost of administration is now appreciably higher in proportion to tax collected than that of New York, probably in part because Massachusetts computes the tax and in part because her costs are spread over a smaller total than New York collects.

In New York, collection at the source is used for the income tax from non-residents. Wisconsin compels corporations to report income paid to others, in order to permit them to deduct such amounts as expense in their own returns and this provision furnishes a check on the individual's report of his income. Massachusetts requires all payments of interest, dividends or wages to be reported.

Other states have followed the system of obtaining information at the source of a taxpayer's income as a check on his return. The best results are secured where income-tax assessors appointed by the tax commissioner maintain thoro supervision over districts. These assessors or supervisors are able to keep in closer touch with the individuals in their locality than could a centralized staff alone, and at the same time their positions are not dependent on the taxpayers of the district as is the case in Missouri and Virginia.

Are Costs of Collecting Income Taxes High?

The cost of administration of an income tax is frequently viewed with alarm by legislators in considering the advisability of adopting such a statute; but the experience in other states shows that the cost is low. The total expense in Massachusetts, including nearly \$40,000 for rental of outside accommodations, will be about \$560,000 in 1930, which will be only about 1.6 percent of total collections. The combined results of developing additional revenue by audits and delinquent investigations netted over \$1,000,000 last year—more than double the total cost of administration—thereby demonstrating that while the administrative cost seems heavy, in reality it can be made to pay for itself twice over.

The cost of administering income taxes in the various states for which cost figures are available compares favorably with that of other taxes. The cost for the collection of income taxes in various states falls between less than 1 percent and about 3 percent of the revenue collected.

Professor M. S. Kendrick of Cornell University, New York, has made an estimate of costs of collecting property taxes based upon replies to a questionnaire sent to collectors in a number of states.¹

The average cost of collection of property taxes in 91 counties, distributed thru 18 states, including Colorado, ranged from 0.3 percent to 3.5 percent with an average for all states of .78 percent.

The New York Tax Commission reports the cost of collecting various taxes in 1930 per \$100 as follows: Corporation income tax \$0.25; inheritance taxes, \$1.26; mortgage tax, \$2.22; stock transfer tax along with the licenses of real estate brokers and of billiard rooms, \$0.30; personal income and the bank-and-trust-company income taxes, \$0.70; motor fuel tax, \$0.23; tax on foreign insurance companies, \$0.15.²

North Carolina reports costs of collecting income taxes as relatively low as compared with the cost of collecting inheritance and privilege taxes and shows in addition a decreasing cost of collection with increasing yields of the tax. Cost of collecting inheritance taxes ranged from 2.6 percent to 4.4 percent; privilege taxes ranged from 4.7 percent to 6.2 percent; franchise tax ranged from .61 percent to .64 percent; and income taxes ranged from 0.89 percent to 1.1 percent.

The cost of collecting \$2,202,964 revenue from sales tax, income tax and inheritance tax in Georgia in 1930 was 2.95 percent of the total tax collected and 1.9 percent in 1931.

¹ M. S. Kendrick. *The Collection of General-Property Taxes on Farm Property in the United States with Emphasis on New York*. Cornell University Bul. 469, Ithaca, New York, 1928.

² Annual Report of the New York Tax Commission, 1930, p. 52.

Table 30.—State Income Taxes: Cost of Administration¹
Individual and Corporation.

State	1925	1926	Percentage		1929	1930
			1927	1928		
California					.65	.19
Connecticut	.19	.19	.19	.19	.19	.19
Delaware		4.5	3.52	2.68	2.28	1.59
Massachusetts ²	2.78	2.17	2.30	2.11	1.88	1.82
Mississippi	2.49	2.53	2.47	2.48		
Missouri	3.0	3.0	3.0	3.0	3.0	
Montana	1.8	1.44	1.49	1.7	1.23	.95
New Hampshire	1.5	2.0	2.04	2.04	1.9	1.9
New York ²	2.41	1.89	1.43	1.15	.80	.80
North Carolina ²		1.01	1.04	.89	.99	1.13
Oklahoma	3.38	3.22	2.98	.99		3.5
South Carolina	2.63	3.82	5.94	3.58	2.70	2.89
Virginia	6.00	3.11	3.24	3.35	3.25	
Wisconsin ²	2.97	2.14	1.56	1.13	1.72	1.78

¹ Taxation in West Virginia. Roy G. Blakey. p. 263, 1930.² Mass., N. Y., N. C., and Wis. from State Tax Commission reports.

Does An Income Tax Result in Double Taxation?

Double taxation is an argument of the "antis." A state income tax will frighten away rich people with large investments and incomes therefrom, they argue. They point to Florida; but it is a far cry from the Rocky Mountains to the Everglades. Personal taxes should be regarded as taxes on the person and not on the source of income and should include all income from whatever source derived.¹

Under existing constitutional limitations, interest upon bonds of the United States and the salaries of federal officials cannot be taxed by the states, but it is recommended that all other sources of income be subject to the income tax.

The purpose of the income tax is to enforce the obligation of every citizen to the government under which he is domiciled. The personal income tax should be levied only upon persons and in the states where they are domiciled.²

Every person having tax-paying ability should pay some sort of a direct personal tax to the government in the locality where he lives and from which he receives the personal benefits that government confers, such as the use of good roads, schools and protection.

Tangible property, real estate, etc., regardless of who owns it, should be taxed by the local and state government in which it is located, because it there receives protection and other governmental benefits and services.

That the owner is frequently a non-resident is not considered a material fact, because the property must be protected where it is located, and, if employed in trade, comes in direct competition with similar property of residents.

Business carried on for profit in any locality should be taxed for the benefits it receives.

¹ National Tax Assoc. XVI (1923) 152-162-181 Index p. 144.² Preliminary Report of the Committee Appointed by the National Tax Association to prepare a Model System of State and Local Taxation. 1923, p. 4-5.

If every person should pay a direct tax to the government under which he lives, if tangible property is taxed where located, and if business is properly taxed in any jurisdiction where it is carried on—by this method it is possible to satisfy every legitimate claim of every state without imposing unequal and unjust double taxation upon any class of income, property or business.

The opposition to an income tax holds that the imposition of an income tax amounts to double taxation. The charge is that duplication will exist because: (1) The property from which the gain was derived is taxed upon its value. (2) The portion of such income as remained in hand, invested in property classified as subject to the property tax would be taxed upon the ad valorem basis.

The courts hold that the tax upon net income is an excise tax, and not a tax upon the property from which it is derived. The income tax is "a burden laid upon the recipient of the income."

Much confusion of thought arises from regarding the income tax as a tax that is levied upon or attached to property as such, irrespective of the person sought to be taxed.

It is the recipient of the income that is taxed, not his property; and the vital question in each case is, Has the person sought to be taxed received an income during the tax year? If so, such income unless specifically exempted, is subject to a tax tho the property out of which it is paid may have been exempt from an income tax in the hands of the payor. It is the relation that exists between the person sought to be taxed and the specific property claimed as an income to him that determines whether there shall be a tax. If the person sought to be taxed is the recipient during the tax year of such specific property as income, then the person is taxed. But the tax is upon the right or ability to produce, create, receive and enjoy, and not on specific property. Hence the amount of the tax is measured by the amount of the income, irrespective of the amount of specific property or ability necessary to produce or create it. In the ordinary acceptance of the term this may be said to be a tax upon income as the statute defines it. But the tax does not seek to reach property, or an interest in property as such. It is a burden laid upon the recipient of an income. (*State v. Wis. Tax Comm.* 166, Wis. 287, 163 N. W. 638)

"Duplicate taxation may be direct or indirect. Direct duplicate taxation, and by this is meant 'double taxation' in the strict legal sense of the term, means taxing twice, for the same purpose, in the same year, some of the property in the territory in which the tax is laid, without taxing all of it a second time . . . There is no double taxation, strictly speaking, where (a) the taxes are imposed by different states, (b) one of the impositions is not a tax, (c) one tax is against property and the other is not a property tax, (d) the double taxation is indirect rather than direct.

"Indirect duplication of a tax is not objectionable. The courts hold either that such duplication is not double taxation, within the legal meaning of the term, or that such duplication is not obnoxious double taxation. For instance, a system of indirect taxes combined with a system of general taxation by value, must often have the effect to duplicate the burden upon some species of property or upon some persons."¹

"The argument of double taxation is not well founded, because under our federal system of government the citizen has a double obligation in taxation. Where such an obligation exists, it is not of itself objectionable that income, property, or any other object of taxation should be twice taxed, provided that the thing is done without discrimination and the total burden is reasonable."²

Retail and General Sales Taxes

Many believe that a "sales tax," such as Canada, and a few of our states levy would be the fairest and most productive. It would surely be productive. But there again we should have class taxation; the biggest families buy the most food and clothes and would pay the most. The big-family class would be taxed for the protection of the big-income class. It taps the rich but wallops the poor.

The property tax is supposed to collect public revenues from the citizens of a state in proportion to how much they possess or own; the income tax, in proportion to how much they receive; the sales tax, in proportion to how much they spend. A sales tax may either be paid by the purchaser or absorbed by the dealer.

Altho a sales tax which is practically universal has been used in France since 1920, the universal sales tax has not as yet found powerful support in the United States except in Mississippi. Instead, most of the states levy taxes only on certain commodities. Since the war, the states have shown a decided tendency toward taxing the sale of particular commodities or services. The most important state tax of this character is that imposed on motor fuels. The second most popular measure is the excise on manufactured tobacco, especially cigarettes, but a number of other commodities and services are now bearing such taxes.

Who Benefits by a Sales Tax?—The sales tax naturally is preferred by business men to income taxes which must otherwise be applied, since the application of a general sales tax will be diffused mainly among people of low income, while the income tax, because of its rising percentages at higher incomes, will strike heavily at the very persons whose incomes are largest and who, by the same token, control the advertising expenditures of all large corporations, and in this way the major part of the income of newspapers. A metropolitan newspaper publisher is usually a rich man, who finds

¹ Cooley on Taxation. Vol. 1, 4th Ed. pp. 475-476, Sec. 223.

² Charles J. Bullock. Harvard Business Review. 6:129:42, Jan., 1928.

his natural allies and friends among the bankers, brokers, business men and well-to-do citizens, and he but serves his own business advantage and that of his friends when, as in the sales-tax case, he takes the side of the wealthy person against the average man.

The fact that a sales tax is generally understood to be passed on to the consumer in the long run has undoubtedly caused it to be regarded with favor by some business men who are aware of the fact that an individual or corporation net income tax cannot be passed on to anyone else. Therefore there will be less resistance to the collection of a general sales tax from business men and corporation officials than in the case of the net income tax.

Under a general sales tax the seller who collects the tax and pays it to the government does not, ordinarily and in the long run, bear the burden of the tax, but passes it on to the consumer. Few consumers would have any idea of the amount of the tax borne by them. Hence, any amount of the sales tax which can be escaped is clear gain from the standpoint of the business man who can pass it on.

If a sales tax similar to the Mississippi sales tax were adopted in Colorado when prices are rising, the effect would not be felt by producers and sellers to any great extent until prices began to fall. Most concerns, because of low-valued inventories at present and a rising market, would be able to add the tax costs, mark up the price of their goods, and thus pass the tax on to the consumers. With falling or stationary prices, however, many concerns would have to absorb the tax.

Citizens of the state could buy from dealers outside the state and thus avoid the tax. Merchants in Colorado might be compelled to absorb the tax in order to meet competition with non-taxed businesses outside the state, including concerns selling nationally advertised products or those located near the borders of the state.

Public utilities furnishing power, light and gas are ordinarily able to add all or a part of taxes to operating expenses and pass them on to the consumer.

Farmers spend a smaller percentage of their real income in purchases that would be subject to a sales tax than do city dwellers. Farmers, therefore, would benefit more or lose less by a sales tax than would city dwellers. The farmer-landowner would receive directly the benefits of the reduction of the property tax on land, provided that the sales tax was used to replace part of the present revenue from property tax. It is preferable to an increase in the property tax.

The chances are good that the tax change would result in some reduction of property taxes to the advantage of the smaller homeowner.

It is not possible to speak with complete assurance as to the result of the tax change on "real estate interests." One real estate owner might suffer while the other gained, and some non-real estate owners, such as apartment house dwellers, might gain more or suffer less from the change than some real estate owners.

The problem of determining to exactly what extent the economic fortunes of different classes in the state would be affected by the introduction of a sales tax is an extremely complex one considering the amount of information available.

The general sales tax has some features that commend it. It starts with universal application to all articles of commerce. If applied to all commodities, it has larger revenue possibilities than sales taxes on selected articles. It takes its toll on all purchases each day, instead of in lump sums at given periods. It is a tax on consumption and hence has little, if any, bearing on the location of competitive business. The tax has proved satisfactory as an emergency measure in states that had to have more revenue.

In the opinion of the North Carolina Tax Commission,¹ this series of advantages of the general sales tax is outweighed by its infirmities. The commission points out that "it takes little account of ability to pay, and is the most successful form of tax on poverty that could be invented. It stands between the hungry and takes its toll from the very sums that charity distributes to help feed the unemployed and the helpless. To the extent that it took any tax off the landlord it would pass it on to his impoverished tenant, and from the owner of the factory to his partially employed laborers. It offers widespread opportunity for fraud in concealing the tax after it has been passed on and collected by the dealer. It pyramids with multiple sales. Its administration would be expensive and difficult and would require an army of employees if administered with approximate success and equality."

Canadian Tax on Sales Has Few Friends.—Canada's sales tax has few if any friends outside governmental departments. It is resented by business men as vexatious and unfair, and by farmers and labor organizations as a tax which increases the cost of living and falls most heavily on those with least ability to pay. Thus there are objections to it from several angles.

The consumer's kick against the tax is that it adds to prices. In Canada the tax has yielded annually from \$38,000,000 to \$100,000,000, depending on the rate. In 1930, at 4 percent, it produced \$63,409,143, which is \$60 per Canadian family. The poorest families may not pay \$60, but every family contributes. Tho the list of articles exempt from sales tax is long, it does not include clothing nor any but primary foodstuffs.

¹ Report of the North Carolina Tax Commission. 1930, p. 25.

It is held in Canada that the sales tax does not give due weight to ability to pay. The man of small income and large family, obliged to spend his whole revenue for goods, bears too large a share of the burden.

Canadian experience shows that the sales tax is not only passed on to consumers as an addition to prices, but pyramided on the way. Manufacturers, wholesalers and retailers figure their percentage profits on price plus tax. It was calculated, when the rate was 5 percent in Canada, that for an article costing \$1,000 to make, \$1,050 with tax added, the manufacturer taking 15 percent profit, the jobber 20 percent and the retailer 33 $\frac{1}{3}$ percent, the ultimate buyer paid \$1,932 instead of \$1,840, the price without the sales tax. Of the extra \$92 the government got only \$50. A 4 percent tax on the manufacturer becomes a 6 percent tax on the consumer.

Manufacturers and wholesalers object to collecting for the government. They have to show the amount of sales tax on every invoice, and calculating and writing these amounts is a heavy expense.

Sales tax is due in Canada at the end of the month following that in which the sales are made. The tax on March sales, for instance, is due April 30. Manufacturers and wholesalers say they do not commonly collect from their customers in that time and so have to pay sales taxes with borrowed money bearing interest.

A third defect they find in the tax is its complexity. The sales-tax law includes 10 closely printed pages covering thousands of special provisions, specific items, exemptions, deductions and refunds. These are constantly made more complicated by fresh regulations, and they are differently interpreted by local officers, causing endless confusion.

No political party in the dominion is committed to the sales tax as a permanent feature of the country's fiscal system. Abolition of the tax is expected as soon as government revenues return to normal.

The Canadian Manufacturers' Association believes that since the adoption of the 4 percent rate in 1931 and 6 percent rate in 1932, small manufacturers have been unable to raise the price of merchandise sufficiently to cover the tax and that it has proved harmful to many of them. Certain manufacturers also feel that a tremendous burden of responsibility is placed upon them in making the proper interpretation of the law, since tax inspection is from 1 to 2 years behind at all times, and it is frequently impossible to make records sufficiently clear to permit satisfactory explanation so long after the transaction occurred.¹

¹ Testimony of C. P. Clark. Hearing before the Committee on Ways and Means, House of Representatives, Revenue, Revision, 1932, 72nd Congress, First Session, Washington, D. C., p. 65-96.

Development of Sales Taxes in the United States

Prior to the war the use of general sales taxes in any nation was exceptional. There was, in fact, a general movement away from taxation of expenses as measured by commodities consumed. But the increased governmental cost has resulted in several states adopting sales tax in order to meet the added cost of government.

Recently the federal government definitely rejected a general sales tax in favor of excise and sales taxes on selected commodities and services, including automobiles and accessories, admissions, capital stock, radios, mechanical refrigerators, gasoline, lubricating oils, matches, domestic consumption of electricity, tires and tubes, toilet preparations, brewer's wort, malt, grape concentrate, furs, jewelry, sporting goods, soft drinks, cameras and lenses, telephone and telegraph messages, safety deposit boxes, checks and other miscellaneous articles and services.

The reasons for rejecting a general sales tax in favor of taxes on selected commodities and services were stated by the Secretary of the Treasury as follows:

"We laid aside all thought of a general sales or turnover tax, not only because generally speaking it bears no relation to ability to pay and is regressive in character, but because of the great administrative difficulties involved and the almost inevitable pyramiding of the tax in the course of successive sales. The objections to a general sales tax are not in this respect applicable to a tax on selective articles of the character heretofore employed in this country and now recommended . . . We concluded that our immediate needs could best be met by utilizing a known general plan with such changes as might be appropriate in the light of altered conditions rather than embarking on new and untried ventures in taxation."

The new sales tax finds Mississippi displeased in certain quarters, as will be seen by the following letter:

The operation of Mississippi's so-called sales tax does not "find Mississippi pleased"—if "Mississippi" is used to mean the citizens who comprise this state. It is a fact that the tax is resulting in a much greater revenue than was estimated by the proponents. This condition is, however, exactly what those opposing the tax forecast and was one of the many arguments presented in opposition to the placing of this additional load on our burdened taxpayers.

It is not a fact that the sales tax was adopted in preference to an increased and diverted gasoline tax, for the reason that the gasoline tax was increased and for the further reason that other means than increases in gasoline tax were advocated. It is a fact that the sales tax was adopted in preference to making further desirable and practicable cuts in governmental costs.

It is not a fact that "since the sales tax has been in force, the anxiety of the merchants has subsided", for the reason that the consumers who, in most instances, are forced to pay the tax, are not failing to express their dissatisfaction almost daily; and for the further reason that the merchants are losing business to "out-of-state" concerns.

¹ Statement of the Secretary of the Treasury. Hearings before the House Ways and Means Committee. House of Representatives, 72nd Congress, First session, Revenue Revision. 1932, p. 4.

No well informed person can state as a fact that "no increase in out-of-state buying has been noted." Since the passage of the sales tax there has been a noticeable influx of salesmen selling from samples, taking orders that are shipped direct from out-of-state concerns. And merchants in border cities are losing out-of-state customers.

During the several months that the legislature was considering this tax measure, it was referred to by those who favored it as a tax on business which the merchant would and should pay. However, due probably to eleventh-hour realization that the absorption of the tax by the merchants would actually mean additional losses to them or at best lessen their profits by 2% these same people began immediately upon passage of this law to state that the tax was never intended to be "a tax on business" but was intended to be a "consumers' tax."

Incidentally, a very strong intimation was made that if the so-called sales tax became operative the ad valorem tax on land would be removed or, at least, lessened.

Do you think for a moment that the farmer is "pleased" when he now knows that practically every purchase he makes is costing him 2% more and at the same time no relief has been given from other taxes?

I am convinced that the real facts regarding this measure should be made known, especially in view of the fact that a few of the counties of this state are now advocating the enactment of a 5% sales tax with the increased 3% going to them for the purpose of retiring outstanding bonds. In other words, instead of reducing expenses and living within their means, their idea is to raise more revenue so that expenditures may continue on the same old basis.¹

With the exception of the business-profession tax of West Virginia, the old merchants' and manufacturers' license tax of Pennsylvania, and the merchants' and manufacturers' license tax in Delaware, general sales taxes were not in use on any important scale within the United States prior to 1930. Connecticut has for some time used gross sales as a measure of taxes on unincorporated business in conjunction with its income-tax laws. But the last two of these sales taxes are comparatively insignificant and are by no means general.²

Since 1914 Virginia has levied a peculiarly regressive tax on those engaging in the mercantile or manufacturing business, which has many aspects of a sales tax, altho it is technically a tax on purchases. Virginia's tax is peculiar in that the rate of tax upon a concern decreases with increased volume.

A temporary law went into effect in Georgia during 1929 which levied a tax modeled on the business occupational tax of West Virginia. Altho this tax yielded over a million dollars in 1930 it was repealed in December, 1931, and replaced with a graduated income tax.

¹ W. N. Miner, Secretary-Manager, Vicksburg Chamber of Commerce, Vicksburg, Mississippi. *The Business Week*, October 19, 1932.

² William A. Tollman. *The Gross Sales Tax in Kentucky*. *The Tax Magazine*. March-April, 1932.

A similar law was passed in Mississippi in 1930 with a section aimed directly at chain stores. The statute contains a provision whereby owners of more than five retail stores pay double the rates of other retailers. An interlocutory injunction was granted by the United States District Court which was later affirmed by the United States Supreme Court.

Connecticut levies a tax on the gross receipts from business in the state at the rate of \$1 on each \$1,000 on retail and manufacturers, and 5 cents on each \$1,000 on wholesalers. One-half of the proceeds goes to the state and the other one-half to the county. The revenue from sales makes up 3 percent of the total state revenue.

Delaware levies a flat tax of \$5 plus .02 percent of gross receipts from sales of manufacturers and \$1 per \$1,000 of cost value on wholesalers and retailers with a tax of \$5 plus 20 cents per \$1,000 cost value of wholesalers of grain, fruits and vegetables. This tax yielded \$128,000 in 1930, all of which goes into the general fund of the state.

Georgia enacted a temporary tax on gross receipts above \$30,000 with rates per \$100 of receipts of \$.05 on manufacturers, \$.10 on wholesalers, \$.20 on retail sales, \$.30 on public utilities and amusements, and \$.20 on all others. Revenue was allocated to the general fund. The revenue amounted to \$364,000 in 1929 and \$1,168,000 in 1930. This law was replaced by a graduated income tax.

Idaho at the 1931 extraordinary session passed a tax amounting to one-half mill per kilowatt hour on electricity produced in the state. The Idaho state tax based on kilowatts of electric power generated in Idaho was sustained by the Idaho Supreme Court in 1932.

Kentucky.—The legislature passed a law in 1930 taxing gross retail sales of stores. Sales of farm products by farmers and sales of gasoline and whiskey were exempted. Rates for the various classes are shown in Table 31.

Table 31.—Classification and Rates—Kentucky Gross Retail Sales-Tax Law.

Gross sales	Tax rates, per \$100 of gross retail sales
Under \$400,000	\$.05
\$400,000 under \$ 500,000 .....	.10
500,000 " 600,000 .....	.25
600,000 " 700,000 .....	.40
700,000 " 800,000 .....	.55
800,000 " 900,000 .....	.70
900,000 " 1,000,000 .....	.85
Over \$1,000,000	1.00

Source: William A. Tollman. Gross Sales Tax in Kentucky. Bureau of Business Research, University of Kentucky, 1932.

One-half of the revenue is used to liquidate the state debt and the remainder is used by the Board of Charities and Corrections. The 1930 revenue produced by this tax has been somewhat dis-

appointing. Receipts covering the 9.5 months of 1930 are \$85,139. Deduction of costs of collection leaves net receipts of only \$49,682. This represents the tax from 20,641 merchants, almost all of whom were assessed at the minimum rate. Costs of collecting the tax from these small merchants are necessarily high. It is estimated that if the law is held constitutional the collections will average \$600,000 a year.

Louisiana levied a new tax in 1932 of 2 percent on gross sales of electric power.

Mississippi launched its general sales tax June 1, 1930, and collected \$107,000 in revenue in 1930; all of this was assigned to the general fund.¹ The cost of administration amounted to 16.7 percent of the revenue collections.

The emergency revenue act of 1932 greatly increased the rates of the 1930 act, doubling the rates in most cases. The gross sales tax is in addition to all other licenses and other taxes. This new law became effective April 30, 1932 and expires June 30, 1934. On the basis of the returns for the first 6 months the revenue collections will amount to \$2,375,000 annually.

By the Mississippi plan, the tax on cigars, cigarettes and tobacco is 20 percent of the sale price.

On amusements, picture shows, theaters, skating rinks, public dance halls, race tracks, amusement parks, admission taxes of 1 percent of gross income are imposed.

Producers of mineral and raw products pay the following rates on the gross value of sales: Oil, 2 percent; natural gas, 2.5 percent; limestone, sand, gravel or other mineral products, 2 percent; and timber, 2 percent. The actual freight paid on limestone, sand, timber, gravel or other mineral products is deductible if sold on a delivered price.

Manufacturers of brick, drain tile, building tile, sewer pipe, Portland cement and clay products pay 1 percent of the gross income; manufacturers of bottled soft drinks, 1 percent; ice factories, .25 percent; and cottonseed oil mills, .25 percent; all other manufacturers pay .25 percent of sale value.

The law provides the tax must be paid on all the products manufactured, whether sold within or outside the state, and where the product is transported for sale outside the state the state tax commission is directed to prescribe rules for determining the value.

Retail business, real estate sales and all other sales except stock and bond sales are taxed 2 percent on gross receipts; automobile dealers are taxed the equivalent of 1 percent of the gross proceeds of sales of automobiles, trucks and tractors; while wholesalers and jobbers take .125 percent of the gross receipts.

¹ The Emergency Revenue Act of 1932 State of Mississippi. Chap. 90.

Street railways, railroads, pullman business, motor vehicle transportation companies, express companies, oil and gas pipe-line companies, telephone and telegraph companies, and those operating water or public sewerage systems pay a tax of 2 percent of the gross income of the business.

Corporations furnishing electricity, electric lights, current, power or gas are taxed 1 percent on the gross income from sales for industrial purposes and 2 percent on sales for household or domestic purposes. Municipally owned electric and water systems are not taxed.

Contractors pay a tax of 1 percent of the gross income while business, professional, tradesmen and others subject to a privilege tax pay 2 percent of the gross income of any such business.

Gross income includes compensation for personal services, gross receipts from trades, business, commerce or sales accruing from the sale of real estate, commodities of all kinds, and interest, discounts, rentals, royalties and fees. No deductions are allowed on account of the cost of property sold, the cost of the materials used, labor costs, interest or discount paid or any other expense whatsoever; and without any deduction on account of losses.

Insurance companies, building and loan associations, state and national banks, mutual savings banks, non-profit organizations and producers of agricultural products are exempt and there is a general exemption of \$1,200 on all gross income or receipts subject to the tax.

North Carolina.—The gross sales tax upon wholesale and retail merchants contains a considerable element of progressive graduation as follows:

Wholesale			Retail		
Total Gross Wholesale Sales		Tax	Total Retail Sales		Tax
Less than \$50,000		\$ 12.50	Less than \$5,000		\$ 5.00
\$ 50,000 under \$ 125,000		25.00	\$ 5,000 under \$ 12,500		12.50
125,000 " 250,000		50.00	12,500 " 25,000		25.00
250,000 " 375,000		150.00	25,000 " 50,000		50.00
375,000 " 500,000		200.00	50,000 " 125,000		125.00
500,000 " 625,000		250.00	125,000 " 250,000		250.00
625,000 " 750,000		300.00	250,000 " 375,000		375.00
750,000 " 875,000		350.00	375,000 " 500,000		500.00
875,000 " 1,000,000		400.00	Over \$500,000		250 for each \$250,000 sales.

Source: Public Laws of North Carolina 1931. Chapter 427, Sec. 164, pp. 571-575.

This tax provides part of the revenue used by the state in maintaining the public schools for a 6-month period.

Pennsylvania.—A tax is levied on gross receipts of retail business at .1 percent and on wholesale business at .05 percent. Sales on exchanges or boards of trades are taxed .025 percent. Revenue amounting to \$3,778,000 in 1929 and \$3,625,000 in 1930 was used for state purposes. It costs from 7.8 to 9.6 percent to collect taxes from retail sales.

"Pennsylvania's legislature, in a special session called to provide aid for the unemployed, enacted a general retail sales tax as a means of raising revenue to finance relief.

"The tax measure calls for a 1 percent levy on all retail sales except sales by farmers of their own farm products, and is expected to provide from 12 to 15 million dollars in revenue from September 1, 1932 to February 28, 1933, its effective period."

The tax also applies to food and beverages sold in restaurants, cafes and other eating places. It is not a tax on manufacturers nor on wholesalers, nor on jobbers.

South Carolina in 1931 passed an electric power tax of five-tenths of 1 mill per kilowatt hour generated and sold in the state. Revenue amounting to \$261,540 was collected in 6 months in 1931. Action to test the validity of the Electric Power Act is now before the United States Supreme Court.

Virginia merchants and manufacturers pay a tax of \$10 on sales under \$1,000; \$20 on sales of \$1,000 under \$2,000; a tax of .2 percent on sales of \$2,000 under \$100,000 and a tax of .01 percent on sales over \$100,000. The collections amounted to \$1,416,000 in 1929 and \$1,397,000 in 1930. Revenue is used for state purposes.

West Virginia.—The sales tax was first enacted in 1921 and provides for a wide variety of rates on all sales, even occasional, and including real estate if amounting to more than \$10,000 annually. The rates per \$100 of gross sales are as follows: Coal, \$.42; oil, \$1; natural gas, \$1.25; limestone and other minerals, \$.45; timber, \$.45; manufacturers pay \$.21; wholesalers and jobbers pay \$.05; retailers and others who sell tangible property, \$.20; banks are taxed \$.30; steam railroads, \$.40; pipelines, \$1; telephone and telegraph, express, electric light and power companies, \$.60; and other public utilities, \$.40. Contractors pay \$.30; public places of amusements pay \$1; all other business is taxed at \$.30. The yield of this tax amounted to \$3,656,000 in 1929, \$3,705,000 in 1930, \$3,065,010 in 1931, and \$2,327,710 in 1932.

The cost of collecting the tax has declined from \$56,720, the first year, to a low of \$43,574 or 1.18 percent in the 1930 tax year.

The state requires quarterly and annual reports of sales from all enterprises subject to the tax, and allows an exemption on the first \$10,000 of sales.

Contributions to the tax total have been made as follows by various economic groups:

Coal, 30.07 percent; oil and gas, 11.77 percent; clay and sand, .83 percent; timber, .44 percent; manufacturing, 23.64 percent; banks and public utilities, 7.87 percent; and other business, 6.69 percent.

The revenue collection last year was as follows:

Enterprise subject to tax	1932
Coal production	\$ 544,930
Clay and sand.....	16,700
Oil and gas.....	311,296
Timber	10,950
Manufacturing	504,461
Retail	367,140
Wholesale	54,291
Banks and public utilities	283,444
All other businesses.....	234,498
Net collections	\$2,327,710

In a special report on taxation to the Governor of West Virginia in December, 1930, Mr. Roy G. Blakey, one of the leading tax experts of the United States made the following comments in regard to the gross sales taxes of West Virginia:*

"The gross sales tax brings in substantial revenue, is relatively stable, is inexpensive to administer, has been adjudicated, is familiar to the public and should not be displaced unless a better substitute can be found. On the other hand, it is very inequitable and will probably become increasingly so if it is revised upward to meet larger demands of the state

"Of various important alternatives suggested, that of a state income tax, is perhaps, most often proposed. A proper income tax under efficient administration would have important advantages over a gross sales tax."

Types of General Consumption Taxes.—There are five types of general consumption taxes as shown by the experience of other countries: (1) A general sales tax applying to all business transactions; (2) a retail sales tax; (3) a wholesale sales tax; (4) a producers' sales tax; (5) some combination of the last two or three.¹

As concerns Colorado, it is probable that only the first two types are practicable. The Mississippi sales tax is recommended for Colorado rather than the West Virginia, Kentucky or North Carolina system, if a sales tax is adopted.

Wholesale Sales Tax.—The wholesale sales tax is not widely used. The Canadian sales tax based on manufacturers' sales and on imports has to a certain degree been collected in fact from wholesalers. This form of tax would be impracticable for use by Colorado as a general consumption tax because of the state's inability to tax imports from other states which would escape taxation.

* Roy G. Blakey. Report on Taxation in West Virginia, 1930, p. 20, 452 pages.

¹ Carl Shoup. Retail and General Sales Taxes. A report to the New York State Commission for the Revision of the Tax Laws, 1932. Memorandum No. 7.

Table 32.—Revenue From Gross Sales Taxes, 1922-1930—(In Thousands of Dollars)

State	1922	1923	1924	1925	1926	1927	1928	1929	1930
Connecticut					351	595	613	599	617
Georgia								364	1,168
Kentucky								50	606
Mississippi ²									107
Pennsylvania	3,102	3,424	2,942	3,582	3,544	4,269	3,777	3,625	4,274
Virginia					1,284	1,296	1,368	1,416	1,397
West Virginia	1,462	2,708	3,056	2,551	3,159	4,076	3,805	3,656	3,705
North Carolina								not effective	
Total	4,564	6,132	5,998	6,133	8,338	10,236	9,563	9,710	11,868

¹ James W. Martin. Industrial Changes and Taxation Problems in the Southern States. The Annals of the American Academy of Political and Social Science. Philadelphia. Jan., 1931, Pub. No. 2448, and State Tax Reports.

² The new 1932 Mississippi sales tax collections averaged \$197,807 per month the first 6 months, or \$2,375,000 annually.

Producers' Sales Tax.—Several countries levy a tax upon the product as it leaves the producer. Austria, France and Czechoslovakia have this system. If a sales tax were levied upon producers located in Colorado, goods produced elsewhere could be sold in Colorado free of tax and Colorado producers would be handicapped in out-of-state business.

Tax Rates and Yield for Retail and General Sales Tax in Colorado

A sales tax in Colorado to be successful would therefore have to take the form of either a retail sales tax or a general sales tax. Mississippi recently enacted a general sales tax of 2 percent which should not be objectionable in Colorado if applied in a broad way to all persons, services, firms and corporations. If it is necessary to resort to sales taxes, the least objectionable should be chosen first.

A general sales tax may be compensated for by a progressive income tax; each may reach abilities that the other fails to reach, and one may take account of benefits that the other slight or overlooks. The combination is better than either tax alone and both are better than an increase in property taxes.

The ability of a sales tax to produce large amounts of revenue is generally recognized. This method of taxation therefore has made a strong appeal to states facing a financial emergency. The comparative stability of yield is a characteristic of sales taxes that appeals to legislators. This stability in the flow of revenues is accomplished by compelling business to pay substantial taxes in years when little or no net profits are earned, even tho the payments at such times must be made out of capital.

The Retail Sales.—The estimate of yield of \$3,497,898 to be expected from a retail sales tax in Colorado has been derived by using the methods adopted by Carl Shoup in his study for New York state as follows:

Sales thru retail stores in Colorado in 1929 (this is 1 percent of the total sales thru retail stores in the United States).....	\$497,852,190
Total sales in the United States of service business, e.g., laundries, cleaners, barber shops, \$1.5 to \$2 billions. Of \$1.5 billions, 1 percent is	\$ 15,000,000
Direct sales in the United States at retail by producers (bakeries, planning mills, etc.) \$1.89 billions, of which 1 percent is.....	\$ 18,900,000
Direct sales of milk and dairy products, \$200,000,000, of which 1 percent is	\$ 200,000
Meals in hotels in the United States, \$370,000,000, of which 1 percent is	\$ 370,000
Total	\$532,322,190
Less 20 percent because of decline in price level since 1929	\$425,857,775
Less 10 percent allowance for cost of collection and evasion.....	\$383,271,998
Tax yield at 1 percent.....	\$ 3,832,720
If the retail tax is not to apply to gasoline, tobacco products and soft drinks, the \$3,832,720 becomes.....	\$ 3,497,898

Source: United States Summary of Retail Distribution, United States Census of Distribution, 1930.

The General Sales Tax.—The estimated yield of \$8,153,688 to be expected from a general sales tax in Colorado has been derived as follows:

Wholesale trade in Colorado in 1929.....	\$539,625,526
Less non-taxable items (import and export merchants and agents).....	500,000
Balance	\$539,125,526
Less commission type of business (presumably exempt from tax, at least at full rate).....	\$124,353,000
Balance	\$414,772,526
Less some part of sales made by manufacturer's agents and sales branches: Total of such sales \$2,148,000 exemption one-half or.....	\$ 41,074,000
Less 30 percent because of drop in wholesale prices since 1929.....	\$373,698,526
Net wholesale tax base.....	\$112,109,558
Value of product of Colorado manufacturing plants 1929 (census of manufacturing)	\$261,588,968
Less part of direct sales by producers.....	\$306,071,031
Balance	\$ 30,000,000
Less 30 percent because of drop in wholesale prices since 1929.....	\$276,071,031
Net manufacturing base.....	\$ 82,521,309
Combined wholesale and manufacturers.....	\$193,249,722
Less 5 percent for cost of collection and evasion.....	\$261,588,968
Net combined tax base.....	\$454,838,690
Retail tax base as given above.....	\$ 22,741,934
Total net tax base, general sales tax.....	\$432,096,756
Tax yield at 1 percent.....	\$383,271,998
	\$815,364,764
	\$ 8,153,688

Source: Wholesale distribution in Colorado: 1929; Retail distribution in the United States: 1930; Census of Manufacturers: 1929; Bureau of the Census, U. S. Department of Commerce.

A brief summary of the advantages and disadvantages claimed for the gross sales tax are given here:¹

Advantages Claimed for the Gross Sales Tax.—1. It produces relatively stable and dependable revenues.

2. It is easily and cheaply computed by the taxpayer.

3. It is easily and cheaply administered by the state, the cost of collection in West Virginia averaging 1.15 percent during the past 4 years.

4. It has the advantage of an old tax.

5. Rates may be adjusted so as to impose in effect a severance or depletion tax, or to cover extra expense which an industry may occasion the state.

6. It may be given the color of an income tax by applying different rates to different occupations, but little more than a very rough approximation to a net income tax can be attained by such methods.

7. It has wide application and, therefore does not discriminate between different industries as do some taxes.

8. It requires concerns having net losses to pay some of the costs of government services to them, as a net income tax does not. This lessens tax burdens upon more efficient industries.

¹ Roy G. Blakey. Report on taxation in West Virginia. 1930, p. 232.

9. A state gross sales tax is not shifted upon consumers to the same extent as a national tax, because producers and distributors must meet outside competition.

10. Where a sales tax is shifted to consumers, it does not burden producers and is little felt by consumers who pay it in convenient dribblets as they purchase commodities.

Arguments Against the Gross Sales Tax.—1. It violates the first and most fundamental principle of equity in taxation in that it takes no account of ability to pay.

2. It usually lays heavier burdens upon the necessities than upon the luxuries of life, upon the poor than upon the rich. In effect it tends to be an income tax in reverse. It is a scheme to protect large fortunes and to meet the government obligations with money extracted from the masses at a time when they are least able to pay more for food and clothing.

3. It is condemned by nearly all economists.

4. Some of the advantages claimed for gross sales taxes are of little value or of doubtful validity. Most of the real advantages can be secured by the use of other taxes which have less serious faults. If the people generally thoroly understood the effects of gross sales taxes as compared with other and better taxes, they would not stand for them at all.

5. Sales taxes are the devices of peoples who are unwilling to face facts, but seek their ends by indirect methods. Such taxes are more prevalent among the Latin than among the Anglo-Saxon peoples, some of whom prefer to know just what they are paying for government services and why, and so are willing to pay direct property and income taxes instead of having exactions like sales taxes concealed in the increased prices of commodities which they buy.

6. A sales tax discourages the development of new and promising industries by taxing them while getting on their feet, even tho they are making no net profit. A net income tax would be much more favorable to them, and later secure revenue when they are able to pay.

7. A gross sales tax, if heavy enough to yield revenues, is particularly injurious to industries and business with large turn-overs sold at narrow profit margins. That is, it is especially antagonistic to the economies of mass production with specialized and expensive machinery, in other words, to the type of industry that has put America in the forefront of the world.

8. Those opposed to a general sales tax argue that a heavy burden will be imposed on the poorer classes by substituting a sales tax of general nature for taxes on excess profits, higher incomes

and luxuries. The sales tax would benefit the 3 percent of the people having large incomes in Colorado who would pay income taxes and place the burden on the other 97 percent composing the low-income group.

9. They contend further that a general sales tax would become cumulative on each successive sale and would thus discriminate against single-process enterprises in competition with multi-process or self-contained concerns.

10. The opposition also emphasizes the difficulty involved in administering a general sales tax. Some idea of the litigation that would follow the enactment of a sales tax may be gained from the present situation in Pennsylvania. The old sales tax in that state has been the cause of more litigation than the income tax laws of any two states.

Pennsylvania recently passed a new sales tax to provide aid for the unemployed. The act is to be in effect only 6 months. The following comment from the Philadelphia Record summarizes the objections to a general or retail sales tax:

A sales tax means that those who have least are taxed the most.

A sales tax means that a man with \$1,500 income—who must normally spend \$1,000 for necessary merchandise—will pay a tax of two-thirds of one per cent on his income.

A sales tax is a heavy tax on the poor man, but a light tax on the rich man because the latter uses most of his earnings for saving and investment while the former must spend most of his earnings for food and clothing.

A sales tax means lowered purchasing power for the masses and slower business.

A sales tax makes depression worse because the fundamental cause of depression is that, while pouring out an even greater volume of goods, we have failed to pay out enough in wages so that the masses could buy those goods.

A sales tax takes more money from consumers and workers at the very time that business needs their buying power most.

A sales tax saves the wealthy from higher income taxes at the very time that taxation of incomes is most needed in order to redistribute purchasing power.

A sales tax means that moneyed interests, too short-sighted to see that their own wealth depends on greater purchasing power for the masses, choose to soak the poor and so speed the deflation that is ruining their own fortunes.

A sales tax violates the fundamental principle of taxation: Those who have most shall pay most.

A sales tax is a graduated income tax upside down.

The Selective Sales Tax

As costs of government have continued to mount, more than one state has had to look for new sources of revenue, and sales taxes on selected commodities have seemed to offer one way out. Under

such a plan consumers will pay taxes much more readily than if a wide range of goods and services is taxed. The taxpayer can easily evade a luxury tax in a legal manner and still enjoy about an equivalent amount of satisfaction by making substitutions, while a comprehensive system of so-called general sales taxes would be extremely burdensome to the poorer classes.

Tobacco taxes, admissions taxes, malt taxes and taxes levied upon bottled soft drinks are good revenue producers and have not generally been opposed except by certain business men.

Fourteen states levy a state tax on one or more manufactured tobacco products.

Four states have taxes on admissions: South Carolina, Connecticut, Kentucky and Mississippi.

Seven states have sales taxes on malt: Arkansas, Louisiana, Michigan, Mississippi, South Carolina, South Dakota and Tennessee.

As shown by the gradual climb in the grand total of revenue produced by such special excises (Table 33), the tobacco and other sales taxes have shown almost constant growth since 1920.

Objections to Taxes on Selected Commodities.—Consumers might order their goods from other states, altho this has its limitations. In the first place, it is unlikely that very much of this would be done, because the tax is nominal and these commodities are almost always bought in small quantities by the consumers. In this matter the success of the tax law would rest largely on the fact that the tax on any one purchase would be small and would be paid as part of the purchase price.

The gasoline tax has been opposed on the ground that it would reduce the sale of gasoline. It is alleged that consumers of gasoline would reduce their purchases, as a consequence of a higher price due to the tax. There appears to be no foundation in fact for this argument. If it were true that the gasoline tax reduces the consumption of gasoline, it would seem that it would also reduce the sale of motor cars. That this is not the case is shown by the fact that records for the number of new cars produced has been broken each year until the depression overtook us.

The same argument has been brought up in respect to the tax on cigarettes. But facts show that the consumption of cigarettes has steadily increased, the increase in 1928 being 8 percent over that of 1927, yet tobacco bears a heavier burden of taxation than many other products. The year 1931 was the first year to show a reduction in the tobacco business.

The tax on beverages has been opposed on the ground that it would reduce the sale. There also appears to be no foundation in fact for this argument.

Table 33.—Special Receipts from Excise Taxes—1922-1930—(In Thousands of Dollars).

State	Commodities taxed and date when originally imposed	1922	1923	1924	1925	1926	1927	1928	1929	1930
Alabama	Tobacco (1927), lubr. oils (1927).....							1,133	1,492	1,474
Arkansas	Tobacco (1926).....				350	713	489	906	900	
Connecticut	Amusements and admissions (1922).....	134	244	289	139	12	191	204	167	140
Georgia	Tobacco (1924), kerosene (1927).....			702	730	718	926	966	1,023	
Iowa	Tobacco (1922).....	593	641	700	777	828	903	1,183	1,326	
Kansas	Tobacco (1928).....							689	698	682
Louisiana	Kerosene (1926).....					84	229	238	212	
Michigan	Boxing and wrestling (1925), malt (1930).....				21	13	54	96	1,109	
Montana	Boxing receipts (1924).....			3	3	3	3	3	3	3
New Jersey	Boxing and wrestling (earlier).....	62	89	104	60	60	47	63	102	
New York	Boxing receipts (1922).....	164	179	232	168	198	220	260	200	
North Dakota	Tobacco (1925).....				57	270	263	366	350	326
Pennsylvania	Boxing and wrestling, bankers' gross receipts.....	42	46	44	40	62	97	107	113	
South Carolina	Tobacco (1923), soft drinks (1925), admissions (1923).....		748	837	2,513	2,410	3,074	3,621	3,833	
South Dakota	Tobacco (1924), malt (1930).....			202	209	317	276	362	406	485
Tennessee	Coal oil (1925), tobacco (1925), malt (1929), carbonic acid gas (1929).....			470	996	1,590	1,747	2,053	2,285	
Utah	Tobacco (1923), oleomargarin (1929).....		78	105	118	130	130	133	202	
Grand Total.....		995	2,025	3,688	6,181	7,408	8,649	12,383	14,421	

¹ James W. Martin. Industrial Changes and Taxation Problems in the Southern States. The Annals of the American Academy of Political and Social Science, Philadelphia 1931, Publication No. 2448. A more complete table on taxes imposed on commodities and services giving 1931 collections is given in Taxation in Minnesota by Roy G. Blakey, The University of Minnesota Press, Minneapolis, Nov. 1932, p. 570-575.

If it were true it would seem that it would reduce the sale of bottled drinks in states where a tax is applied and reduce the revenue from such a tax.

South Carolina has imposed a tax on soft drinks including soda water, ginger ale, coco cola, near beer, fruit juices and bottled drinks of every kind.

On all bottled drinks the rate was 1 cent for each 5 cents or fractional part of the retail price.

Collections by the South Carolina Tax Commission were as follows: \$689,288 in 1925; \$877,589 in 1926; and \$913,029 in 1927, showing that sales of bottled drinks increased 27.3 percent in 1926 while they increased 32.5 percent in 1927. See also Table 34 on tax collections on all soft drinks.

Advantages of Tax on Luxuries.—The advantage of this tax upon a non-essential is that it is voluntary, only those unwilling to do without certain luxuries having to pay the tax.

Secondly, by virtue of the amounts raised by this method of taxation and other indirect taxes, the state levy on physical property can be reduced.

Thirdly, the taxes reach a class of taxpayers heretofore paying little or no tax at all.

"So far as taxes on consumption are concerned it is fairly well appreciated that the commodity taxed must possess the mingled qualities of a necessity and a luxury; if it possesses only the characteristics of a luxury the revenue will be insignificant; if it possess only the qualities of a necessity, it will fall with undue severity on the modest consumer. If, however, it contains both characteristics, namely, that of wide use and at the same time that of a certain degree of dispensability, the revenue is apt to be large and elastic and the burden not too severe."¹

Selected sales or so-called luxury taxes² can be justified on the following grounds:

1. They reach goods and services the consumption of which is entirely voluntary.

2. Luxury taxes are not regressive enough in fact to injure the poorer classes and, since they are paid in small amounts, they are not felt.

3. Luxury taxes are levied frequently upon goods and services that are somewhat harmful in nature, or at least not significant as affecting the economic efficiency of the consumer, and to that extent such taxes are socially desirable.

4. Such taxes can be successfully and economically administered as other forms of taxation.

¹ Seligman. *Essays on Taxation*. p. 325.

² Ralph Burnett Tower. *Luxury taxation and its place in a system of public revenues*. Special report No. 4 of the New York State Tax Commission. 1931.

5. Luxury or selected sales taxes are excellent revenue producers.

6. Luxury taxes offer future relief for general property taxpayers who may not be able to bear as heavy burdens later as they are now obliged to carry.

7. Every citizen should, as a social duty, pay something to the support of the state. Luxury taxation makes it possible for society to reach those incomes which are either outside of the range of other tax levies or are tax exempt.

Result in Other States.—South Carolina has been the most successful state in the use of indirect taxes.

South Carolina collected \$3,541,555 in indirect taxes in 1931 distributed as follows: Tobacco, candy retailing at \$.50 per pound or above, ammunition, playing cards and malt, \$1,751,368; documentary tax, \$228,533; soft drinks (fountain), \$180,214; bottled drinks, \$789,455; admissions, \$261,540; pool rooms, \$15,675; contractors, \$53,200, and electric power, \$261,540.

In 1924 the yield in South Carolina was \$991,000; in 1925 it was \$2,868,000; and in 1931 it was \$3,541,555 or approximately one-fourth of the annual appropriation for the state government. As a result the state levy on real estate was reduced from 14 to 5 mills while appropriations for the state agencies and institutions have not been reduced.

Table 34.—Collections by South Carolina Tax Commission from Indirect Taxes¹

Business taxed	1925	1926	1927	1931
Business licenses	\$1,090,698	\$ 937,982	\$1,500,190	\$1,751,368
Documentary	324,554	272,755	287,069	228,533
Manufacturers and miners.....	365,456	305,872	2,722	
Admissions	199,439	197,209	261,030	261,570
Pool room	7,400	6,000	6,125	15,675
Soft drinks	190,974	121,007	105,098	180,214
Bottled drinks	689,288	877,589	913,029	789,455
Electric power				261,540
Sporting goods			4,212	
Glassware			1,213	
Contractors			32,100	53,200
	<u>\$2,867,809</u>	<u>\$2,718,414</u>	<u>\$3,112,788</u>	<u>\$3,541,555</u>

¹ Reports of the South Carolina Tax Commission, Columbia, S. C.

Taxes on Cigarettes and Other Tobacco Products

The federal government collected a tax on tobacco manufactures amounting to \$424,532,735 in 1931 distributed as follows: Cigars, \$16,389,165; cigarettes, \$340,397,045; manufactured tobacco and snuff, \$66,152,934; and cigarette papers and tubes, \$1,593,592.¹

The tax was paid on the following quantities of various tobacco products: 5,656,065,875 cigars; 113,454,552,890 cigarettes, 367,538,793 pounds of snuff, smoking and chewing tobacco.

¹ Treasury Department, Internal Revenue Bureau, Feb. 1, 1932.

The federal tobacco tax amounts to 75 cents per thousand on cigars, \$3 per thousand on cigarettes, and 18 cents a pound on smoking tobacco and snuff. The tax on a package of 20 cigarettes is 6 cents per package; on large cigars and cigarettes the tax is much higher.

According to studies made by the National Education Association¹ the bill for tobacco in Colorado amounted to \$19,270,980 in 1928.

Those interested in a further study of tobacco and luxury taxation should read "Luxury Taxation and its Place in a System of Public Revenues" by Ralph Burnett Tower. Special report to the New York State Tax Commission, Albany, N. Y.

Rates and Yields in Other States.—The tax on cigarettes is the most widespread of all special state excises. Fourteen states at present employ it.² The tax is of recent growth, having developed only since 1921, and within the years 1921 to 1925 it spread rapidly, being adopted by Iowa, South Carolina, South Dakota, Utah, Georgia, Tennessee, North Dakota and Arkansas in approximately the order named. In 1927, Kansas and Alabama adopted the tax; in 1930, Mississippi; and in 1931, Texas and Ohio. Louisiana recently levied a tobacco tax effective September 1, 1932. All of the above-named states have retained the tax up to the present time. Meanwhile the tax has been either repealed by the legislature or voted down at a referendum in Michigan, New Mexico and Oregon.

The results obtained by the states which have imposed excise taxes on tobacco show that the revenues are considerable.

Receipts from tobacco taxes in states having such levies for the year 1931 or later are as follows: Alabama, \$954,106; Arkansas, \$1,042,509; Georgia, \$1,580,874; Iowa, \$1,335,144; Kansas, \$642,050; Mississippi, \$710,366; North Dakota, \$303,457; Ohio, \$4,000,000; South Carolina, approximately \$1,750,000; South Dakota, \$418,672; Tennessee, \$2,056,956; Texas, \$4,000,000; Utah, \$164,950.

Table 35 contains information on the rates and yield of these taxes. Attention is called to the next to the last column, which shows the per capita yield for every 1 percent of tax on retail sales price. The per capita yields (for every 1 percent of tax rate) are very low; the highest is 5 cents shown by Alabama, South Carolina and Tennessee. If Colorado had the same experience as these states, a 10 percent tax would yield \$.05 x 1,035,791 (population of Colorado in 1930) x 10, or \$517,895.

¹ Res. Bul. of National Education Assoc. Vol. VIII, No. 4, 1930. Wash. D. C.

² Carl Shoup. Sales Taxes on Selected Commodities. A report to the New York State Tax Commission for the revision of the tax laws. 1932.

The low figures of 2 cents per capita for every 1 percent of tax rate, shown by North Dakota, and 3 cents (South Dakota, Georgia and Utah) are accounted for partly by the fact that none of these states tax all tobacco products. They may also be accounted for by lower per capita consumption.

Probable Yield in Colorado.—Table 36 shows the probable yield in Colorado from tobacco rates.¹

(1) Ascertaining from the report of the commissioner of internal revenue for the calendar year 1931, the domestic consumption, in physical units, of tobacco products produced in the United States.

(2) Translating these physical-unit figures by assuming the following unit values (in cents): Small cigarette, 0.625; large cigarette, 1; small cigar, 1.25; class A cigar, 5; class B cigar, 7; class C cigar, 12; class D cigar, 18; class E cigar, 25; pound of snuff, 90; pound of manufactured tobacco, 90. The total comes to \$1,428,495,460.

(3) Estimating the amount sold in Colorado by applying to the total figure of sales a fraction representing Colorado's share of the country's population by the 1930 census (.84). The resulting figure is \$11,993,619 in 1931.

(4) Increasing this figure because Colorado, in the period 1919-1921 inclusive, had a per capita income about 10 percent greater than the average for the country as a whole, according to estimates by the National Bureau of Economic Research.² Increasing the figure \$11,993,619 arrived at above, one obtains \$13,192,980 as an estimate of annual sales of tobacco products in Colorado.

The census of wholesale distribution for 1930 shows that tobacco and tobacco products sales by 23 wholesale dealers in 1929 amounted to \$10,431,035. A mark-up of 20 percent may be assigned for tobacco sales which results in an aggregate value of \$12,517,242 for Colorado.³ This does not take into account sales from other sources.

¹ The method used here is practically the same as that used by Carl Shoup in estimating the yield in New York State.

² Leven, Maurice. Income in the various states. pp. 260-265.

³ Census of Distribution: Wholesale Distribution, Colorado. 1930.

Table 35.—Tobacco Taxes in the Several States: Rates and Yield Per Capita.*

STATE	Subject and Rate of Tax During Period for Which Tax Yield is Given Herewith	YIELD		Population by 1930 Census	Yield per Capita	Yield per Capita for Every 1 Percent of Tax Rate on Retail Sales Value	Cost of Collection; Percentage of Yield
		Amount	Year				
Alabama.....	Cigars, cigarettes, cheroots and substitutes therefor, 15 percent of wholesale price before tax.....	\$1,425,215.64	Fiscal year 1928-29.....	2,646,248	\$0.54	\$0.05 ^s	4 ⁵ / ₇ percent plus 10 percent commission allowed to wholesalers.
Arkansas.....	\$2.25 per 1,000 cigarettes, and 10 percent of retail price of cigars ^s	1,333,021.00	Fiscal year 1929-30.....	1,854,482	.72	.03 ^s , [†]	Unknown.
Georgia.....	Cigarettes, 20 percent of retail price Cigars, 10 percent ¹⁰	797,063.58	Calendar year 1929.....	2,908,506	.27	.03	4 ¹ / ₂ to 5 percent.
Iowa.....	Small cigarettes, 1 mill each; large cigarettes, 2 mills each; cigarette papers, one-half cent per 50 or fraction per book; cigarette tubes, 1 cent per 50 or fraction.....	1,325,913.93	Calendar year 1929.....	2,470,939	.54	.04 ^s	6 to 7 percent.
Kansas.....	Cigarettes, 2 cents per 20; cigarette papers, 1 cent per 50.....	682,250.00	Fiscal year 1929-30.....	1,880,999	.36	.03 ^s	Unknown.
Louisiana.....	Cigarettes, ¹ / ₂ cent each; smoking tobacco, 1 cent on each 5 cents of selling price; cigars, \$2 to \$13.50 per thousand, depending upon price of cigar.....	Became effective Sept. 1, 1932		2,101,593			
Mississippi.....	Cigarettes, 1 cent per 5 cents or fraction of retail price; cigars, 20 percent of retail price.....	714,788.70 (10 mos. only)	June 1, '30 to Apr. 1, '31	2,009,821	.35	.02	6 percent plus 10 percent commission allowed to retailers.
North Dakota.....	Small cigarettes, 1.5 mill each; large cigarettes, 2 mills each; snuff, 2 cents per 1.25 oz.; cigarette papers, wrappers, tubes, various rates.....	326,223.00	Fiscal year 1929-30.....	680,845	.48	.02 ^s	3 percent. ¹³
Ohio.....	Cigarettes, 1 cent per 10 cigarettes.....	3,749,840.65 (11 mos. only) ¹⁵	First levied in 1931.....	6,646,697	.62		

South Carolina.....	Cigarettes and smoking tobacco, 1 cent per 5 cents or fraction of retail price; cigars, \$1 per 1,000; snuff and chewing tobacco, 1 cent per 3 oz. or fraction.....	1,775,000.00 ²	Calendar year 1929.....	1,738,765	1.02	.05 ³	Unknown.
South Dakota.....	Small cigarettes, 1.5 mills each; large cigarettes, 4 mills each; cigarette papers, one-half cent per 50 or fraction, per book; cigarette tubes, 1 cent per 50 or fraction.....	452,964.87 ³	Fiscal year 1929-30.....	692,849	.65	.03 ⁶	Unknown.
Tennessee.....	Cigarettes, cigars, manufactured tobacco and snuff, 10 percent of intended retail price ¹	1,259,776.38 ³	Fiscal year 1928-29.....	2,616,556	.48	.05	Limited to 2.5 percent by law. ¹²
Texas.....	Cigarettes, small, \$1.50 per 1,000; cigarettes, large, \$3.60 per 1,000.....	3,325,559 ¹⁴	First levied in 1931.....	5,824,715	.61		
Utah.....	Small cigarettes, 1 mill each; large cigarettes, 2 mills each; cigarette papers, 1 cent per 50 or fraction per book; cigarette tubes, 1 cent per 50 or fraction.....	188,251.57	Fiscal year 1929-30.....	507,547	.37	.03 ⁶	7 to 8 percent.

¹ Cigars weighing not more than 3 pounds per 1,000, 1 cent per 10 cigars or fraction; cheroots, etc., weighing more than 3 pounds per 1,000, but retailing for 3 cents each or less, \$3 per 1,000.

² Approximate.

³ In addition, \$35,006.44 comes from license fee required of dealers.

⁴ Fiscal year 1930-31, \$2,056,956.

⁵ Assuming wholesale price is 10 cents and retail price 15 cents per package of 20 cigarettes.

⁶ On the assumption (made for simplicity in calculation) that average rate is 25 percent of retail price.

⁷ On the assumption (made for simplicity in calculation) that average rate is 20 percent of retail price.

⁸ Recently Arkansas repealed the 10 percent tax on cigars and increased the tax on cigarettes to \$3 per 1,000.

⁹ Recently this rate was increased to 20 percent from 10 percent.

¹⁰ In 1929 the cigarette-tax rate was changed to one-tenth of a cent, and then to one-fifth of a cent (if intended sales price is more than 1 cent each, tax is 20 percent of price) on each cigarette.

¹¹ Changed to 4 percent in 1929.

¹² Retailer, jobber or wholesaler is allowed 10 percent of cost of stamps for affixing them.

¹³ The amount of cigarette-tax stamps sold from Aug. 29, 1931 to Aug. 1, 1932. Letter from chief of cigarette-tax division, Aug. 9, 1932.

¹⁴ Yield of tax on cigarettes from Sept. 1, 1931 to Aug. 1, 1932. Deputy auditor, State of Ohio.

* Carl Shoup. Report of the New York Commission for the Revision of the Tax Laws, 1932, and state officials. See also Federal and State Tax Systems, The Tax Research Foundation, Chicago, Ill., 1932, p. 117. See page 106 of this bulletin for 1931 collections.

Table 36.—Probable Yield in Colorado From Tobacco Taxes.

Tax on all tobacco products: Rate: Percentage of retail price		Estimated yield before making allowance for cost of collection	Estimated net yield after making allow- ance for cost of collection @ 9 percent
5	.....	\$ 659,649	\$ 606,877
10	.....	\$1,313,298	\$1,213,754
20	.....	\$2,638,596	\$2,427,508

Tax on cigarettes alone: Rate: Percentage of retail selling price		Rate: cents per package of 20 cigarettes	Estimated Yield	Estimated Net Yield
4	.....	$\frac{1}{2}$	\$ 261,749	\$ 240,809
5	.....	about $\frac{3}{8}$	327,186	301,011
8	.....	1	523,497	481,617
10	.....	$1\frac{1}{4}$	654,372	602,022
12	.....	$1\frac{1}{2}$	785,246	722,421
16	.....	2	1,046,995	963,235
20	.....	$2\frac{1}{2}$	1,308,744	1,204,044

We shall assume an average retail selling price of 12.5 cents per package of 20 cigarettes. This conservative estimate is made in order to avoid danger of overstatement of possible yield. With higher retail prices, the yield would be correspondingly higher.

A 10 percent tax on the wholesale value of tobacco products should result in a yield of \$1,043,104 less cost of collection of 8 percent or a net yield of \$959,656 less non-taxable exports to other states based on actual sales by wholesale dealers in Colorado.

Estimates of the reduction of sales of tobacco in Colorado that would result if tax rates of varying heights were imposed are based on estimates for New York by Carl Shoup.

Tax rate in percentage	Decrease in Colorado sales in percentage
8	5
10	10
16	13
20	15
30	20

The following figures, based on data from the federal bureau of internal revenue, are of interest in this connection.

Retail Selling Value of Tobacco Products Produced and Consumed in the United States (in Millions of Dollars).¹

Year ending June 30	Small cigarette only	All tobacco products
1920	378	1,503
1921	338	1,331
1922	375	1,318
1923	456	1,452
1924	509	1,467
1925	563	1,498
1926	637	1,580
1927	697	1,620
1928	754	1,652
1929	855	1,736
1930	900	1,737
1931	897	1,651

¹ Carl Shoup, Sales Taxes on Selected Commodities, A Report to the New York State Commission for the Revision of the Tax Laws, Memorandum Number Six, 1932.

Types of Laws.—State laws taxing the sale and consumption of tobacco are of two types: Those applying to tobacco products as a group, and those applicable only to certain specified forms of manufactured tobacco, such as cigars and cigarettes.

A specific tax is one that is assessed at a fixed rate per unit of the tax base, as 2 cents per package; while the other tax is one assessed as a percentage of the value as a tax of 15 percent of the wholesale value of all tobacco products. Specific duties upon tobacco products take the form of stamp taxes, while the other type represents a specialized sales tax.

The Alabama law seems to be the best from the standpoint of administration, yield and avoidance of the nuisance feature.

The Alabama law places a privilege tax of an amount equal to 15 percent of the wholesale price of cigars, cigarettes and tobacco products. The tax is collected from wholesale dealers either monthly or quarterly.

Tax on Admissions

Present Status in the United States.—There is little experience to guide one as to the admissions tax used as a state revenue measure.¹ South Carolina taxes admissions at 1 cent for each 10 cents or fraction thereof, with exemptions for non-profit private performances, and the yield was \$302,382 in 1929 and \$261,570 in 1931. The tax is collected by the use of tickets or stamps sold by the tax commission.

Connecticut imposes a tax based on seating capacity, with a minimum tax of 50 cents per day and a maximum tax of \$12 per day. The yield in 1930 was \$139,036.

Mississippi in 1930 imposed a general sales tax of 1 percent of the gross income on amusements, picture shows, theaters, public dance halls, race tracks and amusement parks. Revenue amounted to \$84,242 in 1931.

The Kentucky admission tax is measured by the seating capacity.

Taxes on Soft Drinks

Four states, Missouri, Louisiana, South Carolina and Tennessee, levy a tax based on the value of sales of non-intoxicating beverages. In the case of Missouri, however, the charge is so small that it may properly be considered an inspection fee as it is designated in the law.² The charge is three-fifths of a cent for each gallon of non-intoxicating liquid beverage manufactured or sold in the state, together with a charge of 5 cents per gallon on all fountain syrups.

¹ Carl Shoup. Sales Taxes on Selected Commodities. A report to the New York State Commission for the Revision of Tax Laws, 1932.

See also Taxation of Theaters and Moving Picture Shows. Report of the North Carolina Tax Commission, 1930, p. 139.

² Missouri Supplement, 1927, S. 5965.

The Louisiana tax² is designated a business license tax and applies not only to beverages, such as soda water, but also to ice cream and confections. It amounts to approximately .25 percent on gross sales, a tax of from \$5 to \$1,000 being levied on gross sales divided into 18 classes ranging in amount from \$1,000 to \$200,000. It will be noted that a firm doing a business of more than \$200,000 will pay a smaller percentage of its gross sales in taxes as \$1,000 is the maximum tax.

Louisiana levied a tax in 1932 upon beverages of 8 cents per pound of carbonic gas, 25 cents a gallon on syrup and 1 cent for each 5 cents of retail selling price on bottled drinks. The revenue is collected by means of stamps or license tax crowns which seal bottled soft drinks.

Tennessee, since 1927, has had a flat rate privilege tax on bottlers of soft drinks, excluding mineral or table water, and upon brewers.

South Carolina uses \$50,000 from the proceeds of its tax on soft drinks for a state park for tuberculosis patients. The remainder of its extensive list of consumption taxes goes in the general state fund.

South Carolina has had more tax experience with soft drinks than any other state.

A tabulation of the collections from this tax and from total sources is made below.

South Carolina Collections¹

Year	All soft drinks	Total gross collections for the state from other sources
1925	\$ 880,262.37	\$ 9,617,019.38
1926	999,943.81	10,154,648.79
1927	1,018,948.97	11,433,820.80
1928	1,190,260.85	12,809,547.76
1929	1,240,703.61	14,351,514.78
1930	1,076,939.93	14,230,142.87
1931 ²	969,669.00	

¹ Carl Shoup. Sales Taxes on Selected Commodities. A report to the New York State Commission for the revision of the tax laws. 1932.

² South Carolina Tax Commission Report, 1931.

About 25 percent of the tax on soft drinks was collected from the sale of fountain syrups; the balance, 75 to 80 percent was collected from the sale of bottled drinks.

The director of the license-tax division comments on the increased revenues from the soft-drink tax between 1925 and 1928 as follows:

Originally bottlers as well as soda fountains, were required to make monthly returns of the amount of soft drinks sold and pay the tax accordingly. It was found that bottlers, as well as fountain operators, were not making correct returns. Therefore the tax on bottled drinks was changed

² Louisiana, Acts, 1924. No. 205, S. 21; Act No. 5 of 1932.

to a stamp tax, or a tax on the crowns used for sealing. Under an arrangement with the Crown, Cork and Seal Company, the Tax Commission provides the special bottle crowns bearing the state seal on top and a notation 'S. C. Tax Paid 1 cent.'

As a result there has been a large increase in the revenue.

Soft drinks include soda water, ginger ale, coco cola, lime cola, pepsi cola, near beer, beer, fruit juices, bottled drinks of every kind and all fountain drinks.

On all bottled drinks the rate is 1 cent for each 5 cents or fractional part of the retail price; on other drinks the tax is 76 cents per gallon on prepared syrups used at soda fountains.

The State Tax Commission reports as follows:

On account of the so-called indirect taxes, in our opinion a greater percentage of the citizens of our state are contributing to the cost of state government than of any other state in the United States.

Estimates of Sales and Tax Yield.—Sales of soft drinks in Colorado in 1931 may be estimated at \$2,208,518. This figure has been arrived at by combining estimates for (a) fountain beverages, (b) bottled carbonated drinks, bottled still drinks, which estimates were arrived at as follows:

Fountain Sales.—The trade journal "Soda Fountain," in a recent booklet, estimated that \$576,000,000 was spent in the United States in 1930 for soft drinks at soda fountains, not including bottled drinks. Colorado's share of this may be set at .8 percent or \$566,784 on the basis of population.

Carbonated and Cereal Beverages.—The census of manufactures reports that in 1929 there were produced carbonated and cereal beverages, not including spring water and fruit ciders, aggregate factory sales value of \$1,234,224.¹ A mark-up of 33 percent may be assigned for these articles which results in an aggregate retail sales value of \$1,641,518 for Colorado.

Recapitulating the above, one obtains an estimate of retail sales in Colorado as follows:

Soft drinks, including malted milk.....	\$ 567,000
Carbonated malted drinks, cereal and bottled drinks.....	1,641,518
	<hr/>
	\$2,208,518

Estimated Tax Yield.—A tax of 10 percent on the sale of soft drinks in Colorado would yield gross \$220,850. If 5 percent of this amount is allowed for cost of collection, the net yield would be \$209,808.

The following table shows the number of gallons of cereal

¹ Census of Manufactures, series on Beverages, Flavoring Extracts and Flavoring Syrups and Malt. Fifteenth Census 1929. Department of Commerce, Washington, D. C., 1931.

beverages containing less than .5 percent of alcohol by volume manufactured in Colorado in fiscal years ending on June 30:

Year	Gallons ¹	Year	Gallons ¹
1925	1,153,744	1928	1,098,112
1926	1,133,389	1929	1,017,203
1927	905,226	1930	900,481

¹ Colorado Yearbook, 1931. p. 188.

Materials used in producing the 1930 output of beverages including 847,034 pounds of malt, 158,080 pounds of sugar and syrup, 133,868 pounds of corn and corn products, 15,908 pounds of hops, and 19,202 pounds of other materials.

A State Tax on Home Brew.—Another class of taxpayer has lined up alongside the motorist and the smoker. The newcomer is the home brewer. Seven states tax the sale of malt in various forms: Arkansas, Louisiana, Michigan, Mississippi, South Carolina, South Dakota and Tennessee. A state tax of 3 cents a pound is imposed on malt extracts in Tennessee and is expected to yield \$500,000 annually. Arkansas and South Dakota also placed a 10 percent tax on malt extracts, in laws approved in 1929. The tax is added to the retail price, stamps being sold by the state to the retailer and placed on the package by him. The fourth state to adopt a malt tax was Michigan. The levy there is 25 cents a gallon, and it is expected to produce between 1 and 2 million dollars of revenue. Mississippi was added to the list in 1932.

The Tennessee malt tax is levied under the authority of chapter 67, Acts of 1929 as amended in 1931. A special privilege tax of 3 cents per pound is levied upon the sale or gift of malt within the state. The receipts from the malt tax amounted to \$41,061 in 1929, \$98,189 in 1930, and \$100,032 in 1932.¹

The Michigan malt tax is levied under Act 304 of 1929 and provides for a tax on the privilege to sell malt extract, malt syrup or wort. The tax on malt syrup or extract is 5 cents per pound, and on wort, 25 cents per gallon. The tax is paid by the purchase of stamps of the Secretary of State and is in addition to all other taxes. The amount collected during the first complete year of operation was \$1,158,807. The expense of collection was \$44,566.²

Arkansas taxes malt at the rate of 10 percent of the retail price. It is levied under Act No. 181 of 1929.

The South Dakota malt tax is levied under chapter 245 of the Laws of 1929. It provides for a tax of 10 percent of the retail price of all malt products.

South Carolina under Act 574 of 1928, levies a license tax for the privilege of selling malt, amounting to 10 cents per pound. Manufacturers, wholesalers, jobbers and distributors and retailers

¹ Department of Finance and Taxation. Financial report for 8 years ending 1931. Tennessee.

² Report of the Michigan State Commission of Inquiry into Taxation 1930. p. 30.

are required to place stamps on containers. The law was approved in April, 1930.

Mississippi levies a tax on malt of 3 cents per pound, effective in 1932.

Severance Taxes

When oil and minerals are extracted from the earth, these natural resources of the state and nation are permanently depleted. The theory of the severance tax is that, if the natural resources of the state are thus depleted, those who reap the benefits of this exploitation should contribute a share of the benefits to advance the public welfare. Much of our mineral and oil land in Colorado is owned by non-residents who pay little or no taxes in this state. The severance tax is ordinarily levied in addition to the regular property tax, and takes the form of a state royalty on all or specified mineral products.

Severance Taxes in Other States.—Sixteen states—Alabama, Arkansas, California, Colorado, Idaho, Kentucky, Louisiana, Michigan, Minnesota, Montana, Nevada, New Mexico, Oklahoma, Oregon, Texas and Wisconsin now levy a severance tax. The tax is usually assessed at from 1 percent to 10 percent of the gross market value of the product.

Alabama.—The coal and iron tax is levied at 2.5 and 4.5 cents per ton, respectively. All other mines are subject to a tax of 3 percent of the net value at the mine. The taxes are among the sources of revenue distributed to the educational trust fund established in 1927. Revenues in 1930 amounted to the following: Coal, \$425,750; iron ore, \$284,637; other severance, \$8,036.

Arkansas.—A tax is levied on all natural products severed from the soil or water for commercial purposes at 2.5 percent of the true market value. Two-thirds of the proceeds are payable to the state common school fund. The remaining one-third is payable to the counties where collected.

California.—Tax is a uniform rate per barrel of oil and a fixed rate per 1000 cubic feet of gas.

Colorado.—The state levies a tax of one-third of a cent per ton of coal mined, the proceeds of which go into the coal mine inspection fund. The tax on coal is insignificant and no tax at all is levied on oil or gas.

Idaho.—A levy of 12.5 percent of the current stumpage value of forest products is made. Proceeds all go to the county general fund.

Kentucky levies 1 percent tax on the market value of oil produced in the state. Distributed to state and counties.

Louisiana provides for a tax of a specific rate ranging from 1.5 cents to 15 cents per ton on non-metalliferous mines; 4 to 8 cents a barrel on oil; and .2 cent per 1000 cubic feet of natural gas. The rate on manganese is 1 mill per ton and timber 7 cents per 1000 board feet.

Michigan has a severance tax of 2 percent of the cash market value on oil and gas, in lieu of all other taxes. Two-fifths of the revenue is allocated to the state and three-fifths to the locality.

Minnesota.—A tax of 6 percent is levied on the net value of all ore mined or produced. Proceeds are distributed as follows: 50 percent to state revenue fund; 40 percent to permanent school fund; and 10 percent to permanent university fund. The Minnesota royalty tax amounted to \$921,167 in 1930.

Montana.—A tax is levied on metals of .25 to 1 percent; coal, 5 cents per ton; oil, 2 percent of total gross value. The proceeds are distributed as follows: Metals, 50 percent to common school equalization fund and 50 percent to state general fund; coal, all to state general fund; oil, 50 percent to state general fund, 25 percent to common school equalization fund and 25 percent to local high-school funds.

Nevada levies a tax on the net proceeds of mines the rate of which is established by the state tax commission. All revenue goes to the state.

New Mexico levies a tax equivalent to the total general property rate for the locality on the market value of oil and gas less certain expenses and royalties.

Oklahoma.—A tax is levied at 3 percent on the gross value less royalty on oil, natural gas, and casing-head gas, and .5 percent on asphalt, lead, zinc, gold, silver and copper ores. Twenty-five percent of the two-thirds retained by the state, not to exceed \$1,500,000, is payable to the school equalization fund. One-third of the proceeds is returned to the county where collected and must be divided equally between the common schools and roads. Gross production-tax collections amounted to \$6,471,754 in 1931.

Oregon.—A tax of .5 cent per barrel is levied on all the oil marketed. All of the revenue goes to the locality.

Texas.—A privilege tax of 75 cents per ton is levied on the amount of sulphur produced and a tax of 2 percent of the total value of all oil and gas produced. The revenue all goes to the state. Sulphur taxes amounted to \$846,369 in 1930 and petroleum taxes totaled \$5,751,378.

Wisconsin.—A stumpage tax of 10 percent of the value of all wood products cut and removed from forest lands is provided. All of the revenue goes to the state. Forest taxes totaled \$18,887 in 1930.

Yield and Tax Rate.—The yield of a severance tax would vary and fluctuate, depending upon the production of mineral, forest and oil products. It is estimated in a report by the research division of the National Education Association on School Revenues and New Methods of Taxation¹ that a severance tax of 3 percent on the value of mineral products produced in Colorado in 1927 would yield \$1,765,658.

Reports from the U. S. Bureau of Mines show that 2,931,000,000 cubic feet of natural gas valued at \$293,000 was produced in Colorado in 1928.

The total production of crude oil in Colorado from 1862 to 1930 was 25,994,034 barrels with a value of \$27,321,774. The annual production has been more than 2 million barrels annually until 1930 when it fell to 1,627,987 barrels valued at \$1,242,257.

A tax rate of 3 percent of the value of oil and gas production would yield a revenue of approximately \$75,000 annually under normal conditions. This tax has great possibilities for the future and should be adopted now.

A severance tax on coal based on 1930 production of 8,238,094 tons valued at \$22,654,758 at 3 percent would yield \$679,643. A tax of 5 cents per ton would yield \$411,905.

The Taxation of Highway Advertising Signs

Business enterprises have not been slow in taking advantage of the advertising possibilities of Colorado's highways. Every car moving over these roads carries potential buyers of products. Colorado advertises its scenery and then owners of private property allow the scenery to be cluttered up with billboards. If the state invests millions of dollars to provide an audience, why should not business take advantage of the fact to address that audience? The question of interest to the taxpayers of Colorado is whether business firms using the highways for advertising purposes should pay the state anything for the privilege.

There is undoubtedly considerable sentiment in the state to prohibit altogether the use of advertising signs along the highways. Public opinion has forced billboards out of the mountains to a great extent but roads leading to the mountains are still lined with an increasingly large number of signs.

Beauty lovers of Colorado Springs are laying plans for a campaign against the multitude of road signs that advertise virtually every want of the tourist, but at the same time hide from the tourist a goodly share of the scenery he has come to Colorado to see.

It has been found that there are 709 signs of various sizes and kinds on the short stretch of road between Castle Rock and Colorado Springs alone.

It is planned to make a further survey of the sign situation and the local chamber of commerce then probably will draft recommendations for beautifying the highways by elimination of many of the signs.²

¹ School Revenues and New Methods of Taxation. Research Study No. 2, Jan., 1930. National Education Association, Washington, D. C.

² Colorado Springs Gazette, Oct. 8, 1932.

Court decisions are opening up new avenues of legal attack against the nuisance. For instance, Utah passed a law forbidding certain kinds of advertising on billboards. This case was carried to the supreme court of the United States and the law upheld as constitutional.

Twelve states, including Colorado, report a general property tax on signs.¹

There is a growing movement to tax outdoor advertising in the United States. Municipal license fees or taxes are very general, and 14 states are reported as imposing taxes on billboards or advertising agencies in 1930.²

Nevada and Kentucky impose small, flat, license fees on agencies. Alabama, Florida, North Carolina and Tennessee impose graded license taxes on these agencies. Georgia, Massachusetts, Mississippi, Nebraska and New Mexico impose taxes on signs. These are in most instances graded according to the surface area of the sign. Connecticut, New Jersey and Vermont impose taxes on both agencies and signs. The tax on the agency is \$25 in Vermont and \$100 in Connecticut and New Jersey. The Vermont tax on the signs varies from 50 cents on signs of 15 square feet or less to \$9.25 for signs of 550 to 600 square feet. Signs over 600 square feet are not permitted. New Jersey charges 3 cents per square foot and collected over \$60,000 in 1931. Connecticut has a tax which varies from \$3 on signs of 300 square feet or less to \$9 on those between 600 and 900 square feet. Signs larger than 900 square feet are not permitted.

Tax on Billboards Recommended in New York Recently³.—This tax is designed to subject to a special tax burden those who erect advertising signs, particularly large signs. It applies to all signs, except those on one's own premises advertising one's own business. The scale recommended is a progressive one, arranged as follows:

<u>Size of sign (in square feet)</u>	<u>Rate per square foot</u>
Less than 200.....	3 cents
201 to 400.....	3 cents on first 200 and 6 cents on remainder
401 and over.....	3 cents on first 200, 6 cents on second 200, and 9 cents on remainder

Signs of less than 6 square feet should be exempted. For signs in excess of this limit, a minimum tax of \$1 is proposed. In addition a license fee of \$100 is proposed for each company engaged in

¹ Report of the North Carolina Tax Commission 1923. p. 587-92.

² U. S. Bureau of Public Roads. Compilation of laws of the several states in force on May 1, 1930, dealing with the regulation of outdoor advertising.

³ Report of the New York State Commission for the Revision of the Tax Laws. 1932.

the business of maintaining such signs. Three cents a square foot is a very light tax. California estimates that their state could obtain \$200,000 from a tax of 5 cents.

CONCLUSION

The redistribution of the tax burden in Colorado to relieve the farms, ranches, small-home owners and real estate owners will bring large economic and social benefits to the citizens of the state.

To equalize the burden on the different classes of taxable wealth and income will help to improve general business conditions and restore prosperity to the state.

The agricultural population which forms the most important industry in the state will be aided generally thru returning a much needed purchasing power which will help everyone.

It will help our country and city banks, building and loan associations, and trust companies by restoring the value of their holdings and securities based upon real estate.

It will increase the purchase of homes and farms in Colorado and make Colorado a desirable place to live.

The sooner we revise the present tax system, the sooner will we see a return of normal living and business conditions for all of us. But the job of revising the tax system and the job of getting economy and efficiency in governmental activities is a serious business, and we must understand that necessary activities must be maintained while unnecessary activities are abolished.

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