

KNOW YOUR TAXES!

"THE POWER TO TAX IS THE POWER TO DESTROY!"

-- Chief Justice Marshall

The purpose of taxation is to pay the expenses of Government. The costs of the many varied services rendered by the community can only be paid through the collection of funds from the individuals composing the community. But the methods used in collecting these funds often cause effects little expected and generally not understood by the people who pay these taxes. Taxes are often considered only for the revenue they produce, seldom by their ultimate effects.

It must not be forgotten that in paying taxes, irrespective of their purpose or amount, the taxpayer thereby reduces by that amount the funds, (which usually represent the exchange value of his labor), which he has for the purchase of commodities and services to satisfy his own desires.

A tax on labor, in any form, or on a labor product, regardless of its form, must be absorbed by the producer or passed on to the consumer. We are all consumers, and those of us engaged in the extraction of raw materials from the earth, or in their moving, altering, changing, or preparation -- from farmer and miner all down the line to and including the retailer who sells the finished article to the ultimate consumer -- are producers. If absorbed by labor, the tax reduces labor's wage and must ultimately reach the point where laborers will no longer be content to work for the reduced wage. If passed on to the consumer, as is usually the case, taxation means an increase in prices, a basic cause for INFLATION, which cannot be avoided where labor and labor products are taxed.

There are four headings under which taxes may be judged and compared. These are:

1. What is the effect of the tax on production?
Can the tax be passed on to the consumer?
2. Is the tax certain of collection?
3. Is the tax easily collected?
4. Is the tax fair to all? Is the tax paid in proportion to the benefits derived from the community?

With these in mind let us then examine a few of the current types of taxes. In this examination take nothing for granted. The outline is given for your guidance, not as a "proof." Apply this analysis to your "best hated" tax.

Let us also remember the words of Benjamin Franklin: "There is no kind of dishonesty into which otherwise good people more easily and frequently fall than that of defrauding the government." Bear this in mind when considering the certainty and ease of collection.

Land Value Tax

(Based on VALUE of the land and exclusive of any buildings or improvements upon it).

A land value tax cannot be passed on. It cannot be added to the cost of any item of production made or sold at that site. The land value tax cannot be added to the price charged for any service rendered at that site. A chain store located on a busy high priced corner gives "better value" than a store of the same chain located in/at a less "busy" spot. Where the same or similar articles are higher priced at a high rental store than at a low rental store, it is because something else has been added, some extra service, packaging, etc. The land on which the Chrysler Building stands is tax exempt, but this does not reduce the rent charged for stores and offices in the building. The elimination of taxes on buildings and improvements will encourage more and better improvements.

It is certain of collection as is demonstrated by the collection of real estate taxes now.

UNTAX THE BUILDING! TAX THE SITE!

The Archbishop of Canterbury states:

"The present treatment of land and the buildings placed on it strikes me as perfectly topsy-turvy. If a landlord neglects his property and it falls into a bad condition, which is an injury to society, the rates upon that property are reduced, while if he improves the property, and so does a service to society, his rates are increased. But if the rates were levied on the land itself, not on the buildings placed on it, there would always be an inducement to make the property as good as possible in order that the best return might be received from it."

GIVE LABOR ITS FULL REWARD -
GIVE SOCIETY THE VALUE IT CREATES.

There is a very important function of taxation which should not be ignored nor overlooked. In the form of a License it is an extension of the police power of the state. The power to license a dealer in edible products, liquors, narcotics, ice, etc., to sell newspapers, to peddle, etc., is a control factor which the community must retain for its own protection. But the costs of such licenses should be limited to the actual cost of issuing, recording, and maintenance of inspections, and justly become an operating charge against the business involved. It should not be as prohibitive as the liquor taxes, which according to the London Cockney prevented him from "getting drunk on a half-penny and dead drunk on a penny."

Although it is difficult to verify the figures, it is quite certain that prior to January 1, 1942, over 90 per cent of all the funds raised through taxation by the Federal, all state, all county, all city, town and village governments, town, and village, all sanitary, school, water, irrigation districts, etc., throughout the country were raised by levies directly or indirectly applied to labor and labor products. With the new taxes required to carry on the war this proportion of taxes on production, the total of all taxation, will probably reach 95 to 98 per cent. This is a tremendous load for industry to carry, and it is one of the most important if not the principal reason for inflation.

The analysis given here is based upon THE FOUR PRINCIPLES OF SCIENTIFIC TAXATION as outlined in "Progress and Poverty" by Henry George.

Other books recommended are:

Protection or Free Trade
The Land Question
Science of Political Economy
The Brimstone Game
The Philosophy of Freedom

Henry George
Henry George
Henry George
Montgomery
Gaston Haxo

IS THERE A FALLACY IN "FREE TRADE?"

Everyone is discussing Po
What is Free Trade?
For whom will it be Free
Is there a "catch" in Free
How much of the current t
What can we expect if we

For the answers to these q
Trade" by Henry George.

All of the books mentioned
libraries, or from the Henry Ge
30 East 29th Street, New York, :
upon fundamental truths, known :

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also available.

Take nothing for granted.
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Henry George was born, liv
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Further information regard
the Henry George School of Soci
New York City. This school is
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<u>TAX</u>	<u>EFFECT ON PRODUCTION</u>	<u>CERTAINTY OF COLLECTION</u>
Automobile Tax	For vehicles used in business it is immediately an increase to cost and must be absorbed in prices.	It is certain of collection.
Special Industrial Taxes, such as licenses to sell liquor in restaurants.	They increase the cost of operation of business and must be absorbed in prices.	They are certain of collection.
Special Taxes such as cotton processing tax.	A direct charge on production and reflected immediately in increased prices.	It is quite certain of collection.
State Franchise Tax for ordinary business corporations.	It increases cost of doing business.	It is certain of collection.
Stock Transfer Tax	In the original sale of its securities, the revenues of the issuing corporation are reduced by the amount of the tax. In other transfers the tax becomes a sales tax, reducing the amount which the buyer has available for the purchase of other commodities or services for the satisfaction of his own desires.	It is certain of collection.
State Unemployment & Federal Old Age Benefit (4% of payroll)	This tax must be directly reflected in prices, as it causes an increase in labor charges. If not absorbed by the producer, it can only be met by increased prices or failure to increase wages with increased cost of living. Assume a business of \$50,000 a year, wholesale, retail, or jobbing. Its payroll will be about \$5,000. Four per cent on this is about \$200 or about $\frac{1}{4}$ of 1 per cent on the annual business. If it is absorbed by the business, cheaper materials will have to be used or another way of increasing prices.	It is quite certain of collection though there have been cases where taxes were not paid through collusion of owners and workers. This condition would soon clear itself.

TAX	EFFECT ON PRODUCTION	CERTAINTY OF COLLECTION
Income tax State or Federal	<p>This is a deduction from the wages paid to labor engaged in production, or in performance of a service. The tax rate rises with increase in income, and it will therefore tend to reduce production, because increase in effort on production will meet with steadily decreasing returns. By reducing the net income of labor, it reduces the satisfaction for which a given amount of labor can be exchanged.</p>	<p>The income of those employed by large corporations, civil service and a few others is reported to the Federal Authorities by the employers, but who can check up on the incomes of the itinerant workers, dishonest business men, doctors, dentists, and those who do not keep books, as well as waiters, bell-hops and others who are paid in tips, (some of whom often net comparatively high wages).</p>
Sales tax (Paid by consumer on articles purchased by him)	<p>It directly increases the net cost of the article, and for a given income it must reduce the personal satisfactions which the purchaser can enjoy as the result of his labor.</p>	<p>It is not always collected as purchasers can claim exemption (claiming Jersey, Connecticut, or up-state New York residence when purchasing in New York City). It can be easily ignored by dishonest business men who do not keep full and complete records. It can be easily circumvented by "claims for resale."</p>
Occupancy tax Paid by tenants of any space used for business purposes. 1% of annual rent.	<p>Paid by producers, it immediately reduces their income, and in turn reduces desire to produce, if return is decreased.</p>	<p>It is quickly and easily determined.</p>
Water Tax	<p>It is a direct charge on production for all water used in industry, and must therefore be included in the final price.</p>	<p>Through lack of meters in all buildings, it is not certain in its collection. In buildings without meters, charges are based upon number and kind of fixtures.</p>
Gasoline tax	<p>Through increased costs of truck transportation, it directly increases production costs, and prices to the consumer.</p>	<p>It is not certain of collection, since farmers are exempt from tax on gasoline used on farm; dry cleaners are exempt from tax on gasoline used in dry-cleaning, etc. Exemptions will always lead to abuse and dishonesty.</p>

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Henry George School of Social Science
International Hdqtrs. for Post-war Construction
30 East 29th Street, New York City

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It is easy to collect.
More tax litigation is
based on the value of build-
ings and improvements than
upon the value of the land.
Land values are readily de-
termined in a Free Market
by the competition of those
who would use it. Much
valuable mineral-bearing
land is now taxed as unused
or partially used farm land
whereas under a LAND VALUE
TAX it would be assessed
at the maximum it would
bring based on FREE COMPE-
TITION among those who
would engage in production
thereon.

It is the fairest tax yet found. LAND VALUES are based on commu-
nity actions, regardless of improvements made on the land. A real
estate development becomes valuable only when people move there.
Under a land value tax there would be no tax on the improvements,
buildings, sewers, lights (if privately installed), but only upon
the unimproved value of the land. This would lead to better
building. A "tax" taking the full economic rent of the land for
the community would eliminate the necessity for other taxes. It
would eliminate the holding of land out of use, or only partially
used, in the expectation of increased value--land speculation.
The average private home throughout the country is about 5 times
the value of the land on which it is located, thus the home owner
pays 5 times as much tax on his building, which is a labor prod-
uct, than upon the land. Even if the tax on his land were doubled
while the tax upon the building was removed, his saving every year
would be considerable. In the case of the farmer the savings
would be even greater, as the improvements thereon are much more
valuable than the unimproved farmland. The land value tax is not
a tax. It is the taking by the community of what the community itself
creates--land value which is manifested by the rental value of the
land. In a certain section of New York City the principal of the
local school was unable to maintain proper discipline at that
school, and some of the better families moved away. Rents in
stores and residences went down, but when a new principal who knew
how to maintain order, and how to hold the "wild ones" in check
was installed, the "better" families returned to the section and
rents went up again. The tax rate probably changed little or
nothing in that time. Observation in any section of the city or
in any community will bring forth other examples like this. It is
sometimes said that Land Taxation can be passed on and that rents
go up as a result. Sixth Avenue, New York, is given as an example.
Here taxes went up and rents also. But the rents could not have
been raised if the city had not first built the subway and removed
the elevated railway eyesore. At the first mention of a subway to
be built under Sixth Avenue, land values rose because of specula-
tion, but rents under short term leases, or month to month rental,
could not be increased because there was as yet no increase in the
productive value of the land. Retailers along the street could
get no benefit until the completion of the improvements, which by
bringing more people to the street would improve their business op-
portunities. Then and not before then, the business man would be
prepared to pay more rent.
LAND VALUE TAXATION is not expropriation. It in no way involves
taxation on improvements, or on other labor products. The elimin-
ation of these latter taxes will leave more of the wage earners'
pay for the purchase of more goods and services, thus spreading
employment. The land owner who is using his land to the maximum
advantage will not suffer by the land tax. Those who are holding
land out of use or using it only to a slight extent, the land
speculators, will be the ones most affected.

EASE OF COLLECTION

IS IT FAIR?

The collection of the tax is quite expensive. It entails the employment by the government of large staffs of employees to check and recheck tax returns. This expense is much greater in the cases of appeals and tax refunds.

It cannot be fair if there is no distinction between the sources of income. Not all income is derived from one's own labor. It may come from government or industrial securities, patent rights, or through the rent of land. It cannot be fair if many individuals are in a position to hide much of their income. It cannot be fair if some wages are partly paid in free rent for apartments, (building superintendents, etc., free meals, restaurant and hotel employees). It cannot be fair if arbitrary allowances are made for expenses of automobiles used partly for business and partly for pleasure (as by salesmen, doctors, business men). It cannot be fair if arbitrary allowances are made for the rent, light, heat, etc., where a business is operated from a home.

It is very difficult to check on all merchants to see that they report total amounts of sales. It requires an even greater staff of employees by the government than does the Income Tax per dollar of tax collected. It causes manufacturers, jobbers, and retailers considerable trouble and expense in keeping records of consumption, resale, use out of town. This expense added to cost of doing business must be added to price.

If not collected by the merchant, he must pay it out of his own pocket, thus reducing his income. He must then either raise his price, or ultimately go out of business. The average merchant can draw no more than 10 per cent of his annual business as his annual income from the business; a 1 per cent sales tax, if not collected from the customer, becomes a 10 per cent income tax. No merchant can stand that. There are no taxes on services. There is no difference between the tax on materials used on a 25-dollar and a 5-dollar permanent wave. There is often a difference of opinion as to what is service and what is merchandise. Ask a merchant who deals in custom-made merchandise and one who also does repair work.

It is quite easily collected.

It is unfair, since it is determined by rent, not on a basis of production nor of services rendered by tenant. A grocer will pay the same tax on a large-volume, low-profit business as a slow-moving, high-margin business in the same location. A hairdresser and an engineer's office will pay the same tax. None is paid if the owner is doing business in his own building.

It is fairly easy to collect.

Taxes based upon the number and kind of fixtures are purely arbitrary and unfair, and tax the heavy user less than the light user. It has been determined by careful observation and tests that a women's hotel uses 20% more water than a man's hotel of the same size. A tax based only on the number of fixtures will give the women's hotel a great advantage.

It is fairly easy to collect except for false claims made by farm and industrial users. Amounts used in exempt classes will be "padded" to cover gas used in pleasure cars. The machinery of collecting office for rebates will also prove expensive to maintain.

It cannot be fair if there is room for dishonesty. This tax paid by traveling salesmen (agents in production) is the same as that paid by pleasure drivers, and it must increase the cost of production and prices. Gasoline taxes devoted to road construction will increase the value of rural land without equivalent improvements in the urban sections.

EASE OF COLLECTION

IS IT FAIR?

It is easy to collect,

It is not fair, as it is in no way based upon the use of the vehicle. A car driven 1,000 miles per year will be taxed as much as a similar car driven 50,000 miles per year. Both use the same streets and roads.

They are easy to collect.

They are unfair in that the tax is not based upon volume of business done. It will press hardest on those doing the smaller volume (financially) than those doing a larger volume of business. A poor man's restaurant will pay the same as a high society night club.

Not always easy of collection. It usually involves the use of a big force of employees to check stocks held by wholesalers and retailers. Fines for failure to file through ignorance of the scope of the law are heavy and must be borne by the producer.

It is easy to collect.

This tax is in no way concerned with the volume of the business done, nor with the nature of the business such as manufacturer, jobber, retailer, or real estate agent.

It is easy to collect through the use of stamps.

It is distinctly unfair. It has no relation to any service rendered by the state. Under the guise of attempting to stop stock speculation, it is merely another source of income, another nuisance tax.

Though fairly easy of collection, it requires a large organization in both Federal and State governments to maintain records, check pay-rolls, etc. It also causes considerable expense to an employer to maintain complete and thorough records. This added expense must be absorbed by owners, which means lower income for individual owners or lessened returns for invested capital or increased prices.

Not only is it most unfair to capital and management which are immediately affected, but it is equally unfair to labor which loses the possibility of increase in wages and suffers through increased prices. It must be remembered that when taxes are passed on the amount charged against the public is greater than the amount obtained by the Government. A small business doing \$25,000 with \$12,000 stock, labor \$3,663--owner drew \$2,400--this tax \$146.52, 6% of owner's income (wages and interest on his investment). He will soon be forced out of business putting several employees and himself on the unemployment rolls. His competitors will lessen services and increase prices, causing his customers to suffer likewise.