

TAX FACTS

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The Tax on Tangible Personal Property

(Note: The following letter from Mr. Dunlop to Gov. C. C. Young is self-explanatory. Governor Young made a courteous reply and promised careful consideration of the suggestions contained in the letter).

Governor C. C. Young,
Los Angeles, Calif.

Dear Sir:

Pursuant to your request at our conversation last week, I herewith submit in writing the suggestion I made to you for an amendment to the tax system of California, which would make up to the State revenue the loss incurred by the failure of the new State bank tax. The recommendation was as follows:

Adopt a State constitutional amendment exempting from taxation all forms of tangible personal property, including manufacturing machinery, stocks of merchandise, household furniture, workmen's tools, farmers' implements, live stock and stored crops.

With all taxes on tangible personal property repealed, automatically the local taxes on tangible personal property now paid by corporations will cease, and the "offsets" against their 4% State income tax will cease, leaving the State in possession of the full 4% income tax. This would make up to the State the losses arising from the failure of the bank tax at no increase whatever in the total tax, State and local, paid by the corporations.

How would the local governments make up their loss from the abolition of the tax on tangible personal property? By increasing the tax on land and improvements. This would not be a hardship on the actual merchant, manufacturer, home owner or farmer, for the exemption from their tangible personal property tax would tend to offset their real estate tax increase. The speculator in unused lands, however, would have his net tax increased. Even he might profit by the proposed change, for the repeal of the tax on tangible personal property would so promote commerce, manufacturing and farming in California that the price of vacant land might easily rise.

August 29, 1929.

Sincerely,
GEORGE H. DUNLOP.

The repeal of the tax on tangible personal property and the automatic termination of the "offset" against the 4% State income tax on corporations, should be accompanied, also, of course, by the repeal of the "offset" against the corporation income tax of 10% of the real es-

tate tax paid locally by a corporation. This last offset particularly favors the banks.

We must always keep in mind, in revising our tax system, that the merchants and manufacturers of Pittsburg, New York and London, are exempt from taxes on tangible personal property.

THE FARMER'S SITUATION

By

Jackson H. Ralston

It is so often assumed that the farmer possesses some interest contrary to the levying of a tax on land values exclusively, that the subject calls for some special examination. It is true that in so far as the farmer is a speculator in land his immediate selfish interest is like that of any other speculator opposed to such a tax. Even then in the long run and for the welfare of his family his true interest can only be on the side of social justice.

Let us consider the farmer as such, divorced from all consideration of speculation.

The farmer is a producer and a consumer. As a producer his interest is that of any other producer—to be let alone in his production. He is often confused by the fact that he is the possessor of broad acres instead of narrow city lots, but this does not alter the substance of his situation.

The farmer concerns himself with the manufacture of raw food and the raw materials for clothing on much land of little value. The city man transmutes the raw material furnished him by the farmer into finished food and clothing ready for use, or manufactures the products of mines and forests, transforming them into objects for the use of the farmer and all others. This is done on land of concentrated and relatively large value. The farmer and the city man are thus both manufacturers. Because we call those on the farm farmers and those in the city by other names we do not alter the fact that both are producers working to common ends, and in our civilization, upon a real social equality. For what difference as producers can exist between the man who requires forty acres of land worth \$100 an acre, or \$4000, producing, let us say wool or cotton, and one who on a lot worth \$4000 turns the raw material into woolen or cotton cloth? Both obtain their living from the use of land, one at one stage of production and the other at a more advanced. An equal tax on production strips them equally. An equal tax on monopoly protects them equally. The farm adds value to the city land. The city builds up the farm. The tax which diminishes the ability of the city man to buy affects the farmer's market and vice versa. As producers their situation is identical.

But as we have said the farmer is a consumer. The thing which comes to the farmer and which he needs to enable him to produce is laden with a plenitude of taxes, from those paid in our ports to the last tax imposed on the city merchant from whom the farmer buys his hoes or reapers, his aluminum and other kitchen utensils or his truck. At no stage can his interests be differentiated from those of his city brother. A possible dis-

inction between them as men would be in the superior ability of the city man by closer intercourse with his fellows to protect himself.

Of course from variations of seasons the farmer may enjoy a feast or famine, but so may the city man produce for a disappointing market or have the temporary advantage of unexpected demand. Essentially there is no farmer problem distinct from that of any other producer.

Further, the farmer should not forget that the productivity of his land, the foundation source of its value, is severely limited by nature, and can never exceed a certain moderate amount. On the other hand the city man can multiply the productiveness of his land by piling story on story, and his land values may be multiplied indefinitely by the thousands who come to trade and produce upon his lots and squares. Thus more and more land values concentrate in the cities and the value of the country remains comparatively stationary.

Let the farmer reflect that inexorably as fate, land values are augmenting in the cities where population flows, and relatively diminishing in the country. Farm land speculation vanishes. Let him further reflect that his tangible personal property, now disproportionately large compared with that of the city man, tends constantly to increase with the growth in the use of improved machinery, and that under our proposition this with his permanent improvements would be relieved of all taxation.

SOCIAL RESPONSIBILITY

It is time we began looking at the social side of some of our problems, and not keep our minds concentrated all the time on the individual side, in making enough money to keep the wolf from the door. If we continue the old habit of each man for himself, we may find the wolf coming in the back door when we think we have the front door very safe.—E. M. Scofield, *Civil Engineer and Contractor*.

MAKING THE BENEFICIARY PAY

"Our reason for making the charge upon the land alone," said Arthur A. Weber, chairman of the Santa Monica-Los Angeles Breakwater Association, "was because we anticipated an increase in land values in the harbor district, and it would be unfair to charge improvements upon the land already made, thus permitting the owners of unimproved lands to get all the benefits of the improvement without paying their fair share of the cost of the work."—*Los Angeles Times*.

Query: Is it wise for a State or a city to tax desirable things that can run away, or that might come to us if untaxed?

THE TAX COMMISSION

The last California Legislature accepted the emergency report of the Governor's Tax Commission, and established a tax rate of two mills on foreign securities, and a rate of one mill on money and credits. No action was taken on the full report of the Commission. Instead, the Legislature provided for a committee composed of its own members to go into the subject. The members are:

Assemblyman Edgar C. Levey, Chairman, 166 Nineteenth Ave., San Francisco.

Senator Arthur H. Breed, Vice-Chairman, Latham Square Bldg., Oakland.

Assemblyman Harry F. Sewell, Secretary, 616 Terrace Place, Whittier.

Senator H. C. Nelson, 1819 H Street, Eureka.

Senator Herbert C. Jones, 895 Hedding Street, San Jose.

Senator J. W. McKinley, 508 West Adams Street, Los Angeles.

Assemblyman Charles H. Deuel, 3843 Fourth Street, Chico.

Assemblyman Isaac Jones, 723 East E Street, tario.

The Committee holds its initial meeting, September 27 and 28, at the Ferry Building, San Francisco. Chairman Levey is quoted as saying that he believes "the best results will be obtained by getting the views of those who contribute to the State's taxes rather than from experts with preconceived notions regarding taxation systems."

As every consumer in California contributes to the State's taxes, each citizen should feel free to express his opinion to the Committee. This is an opportunity for these members of the Legislature to do some constructive work toward establishing California's tax system on a just and scientific foundation.

Much has already been done. California is far from being the most backward State in regard to taxation. But that is not enough. It should be the most forward State. It has reduced interest to farmers and business men by untaxing mortgages. It has eased the lot of working farmers by taxing the vacant lands of speculators the same as improved lands for irrigation and drainage projects. It has aided improvers and builders by taxing land values for street pavements, storm drains and sewers.

Some day a California Legislature will assemble at Sacramento with a vision of what the Pacific can mean as a highway to the millions of people that line its shores. That Legislature will continue the policy of prior Legislatures by untaxing manufacturing machinery, stocks of merchandise, household furniture, workmen's tools, farm-

ers' implements, live stock and stored crops. The Committee has an opportunity to launch California upon a new era by continuing the untaxing of industry.

NOT ALL COUNTED

A list of miscellaneous livestock in Los Angeles County as reported to the county assessor this year shows a total of 14 canaries listed to one owner, 10 ducks to another and three peacocks to two owners, also 10 persons admitted the ownership of a total of 88 turkeys in the county.

Evidently there are still a few conscientious taxpayers here, but when it comes to compiling a list of the county's poultry and livestock, statisticians will have to resort to more reliable sources than the assessor's files for their information as we suspect that there were some of the above mentioned poultry that escaped the attention of the assessor.—*California Cultivator*.

The nations can't have parity if they aren't willing to pare.—*Publishers Syndicate*.

Men are like postage stamps. They have to stick to get anywhere.—*Dayton Journal*.

Some people get an education late in life, and some have no children to bring them home work.—*Brooklyn Times*.

A Pennsylvania town is advertising for a drug-store. It seems the regular restaurant has closed down.—*Detroit News*.

Other endurance records don't impress the man whose neighbor has a pup that gets lonesome at night.—*Boston Post*.

A democracy is a land in which everybody has an equal right to feel superior to the common people.—*Richmond News-Leader*.

Doubtless our grandchildren will prize heirlooms all the more if they must finish paying for them.—*Cedar Falls (Ia.) Record*.

Every farmer in Oklahoma has a picture of the new farm board hung right on their wall in between the two mortgages.—*Will Rogers*.

Parenthood has reached first base when it recognizes from the sound whether its progeny is crying for cause or effect.—*Dallas News*.

We'll be a self-sustaining people when somebody discovers a nutritious vegetable that can be cultivated with a brassie.—*Arkansas Gazette*.

The Youth's Companion has been sold out of Boston to Detroit, but no bids have been received for the Bunker Hill Monument or Faneuil Hall.—*Arkansas Gazette*.

Henry Ford says he would quit making cars if Prohibition were repealed. It would be a great pity to have Detroit's two leading industries destroyed at one blow.—*The New Yorker*.

If prisons were fitted up with libraries, center tables, rag carpets, and canary birds, maybe they would look so much like home that people would try to keep out of them.—*Cincinnati Times-Star*.

Excepting Russia, all of our war debtors have now signed up. It is estimated that in the next fifty-seven years Europe will pay us \$10,000,000,000 principal, \$11,500,000,000 interest and 2,500,000 editorials.—*New York Times*.

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PLUMBING THE TAX QUESTION

If a property owner were asked to name the amount of his tax for a year, he might after considering his receipts for city and county taxes, together with bills for various special assessments, fees and licenses, give the total as the amount of his contribution to government. The answer would be far from the truth.

The statement would cover only his direct payments to government, without any deductions for the taxes he had shifted to others, and it would not include the taxes that had been shifted to him.

In considering this point, the Tax Commission of North Carolina, in its report for 1928, says: "The conception that in taxing credits we are taxing wealth is almost a complete delusion. Wealth is usually well enough advised to avoid the payment of this tax, and to find a legal means of doing so."

Grant, however, that a way has been found to tell just how much wealth a man has, both in tangible and intangible forms, and the assessor puts it all on his books. There might be a merchant, a banker, and a home owner, each assessed for the same amount.

Under the general property tax, which so widely prevails in this country, each of the three men would be billed the same amount. But this would not be the end. The merchant would enter the tax as an item in the cost of merchandising, together with clerk hire, insurance, etc., and add the whole to the price of his goods. The banker would do the same, and increase the charge to borrowers, either in higher interest or in commissions. The home owner, being his own tenant, would bear his own tax.

Merchants and bankers, however, do not like to raise prices, if it can be avoided. It hurts trade, and competition is keen. Wherever possible, therefore, each tries to evade his taxes, thinking that if he hoodwinks the assessor he can to that extent undersell his neighbor.

This accounts for that remarkable state of affairs found in Ohio by John A. Zangerle, auditor of Cuyahoga county. Mr. Zangerle shows that from 1920 to 1926, merchants' stocks fell

from \$339,000,000 to \$300,700,000; manufacturers' stock decreased from \$561,000,000 to \$484,700,000; bonds and stocks shrank from \$187,800,000 to \$151,000,000; money was reduced from \$321,000,000 to \$272,000,000.

"When we reflect," adds Mr. Zangerle, "that the amount of money on deposit in Cleveland alone December 31, 1927, was approximately \$900,000,000, we do not swell with pride at Ohio's taxing system."

If the Ohio reformers who are trying to stop the shrivelling assessments succeed, what will happen? They will merely force merchants to increase prices and compel bankers to raise interest rates, thus laying heavier burdens on farmers and home owners.

California had the wisdom years ago to untax mortgages within the State, thereby lowering the interest rate to debtors. The last legislature, at the behest of our financiers, reduced the tax rate on foreign securities—stocks and bonds from other States—to two mills, and the rate on money and open accounts—accounts not secured by notes—to one mill.

A strong movement is now on foot in the State to untax tangible personal property, including manufacturing machinery, stocks of merchandise, household furniture, workmen's tools, farmers' implements, live stock and stored crops.

The reason for untaxing the goods and stocks of farmers, merchants and manufacturers are as strong as for relieving the holdings of financiers. And a sensible minded, justice loving people will not long tolerate a system that taxes a farmer's live stock 20 mills, and the foreign stocks and bonds of the banker 2 mills, or that levies 20 mills on the home owner's furniture, and 1 mill on the banker's money.

That any part of the unjust, wasteful and iniquitous personal property tax should still remain is due to the fact that voters do not understand the question. As Recorder Zangerle says in his address to the Ohio people: "The public mind is not sufficiently educated or informed as to the interrelations of property values."

Much of this ignorance is due to the manner in which colleges and universities treat the tax question. So much attention is given to the legalistic phase of taxes, and so little to the economic side that students learn practically nothing of the incidence of taxation.

Fortunately, nature's laws are not dependent upon scholastic interpretation for their existence. The natural law of interest, rent and the interrelations of taxes and property values is fact, and it will ultimately prevail in spite of timid university instructors, muddling legislators and grasping land speculators.