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# MINNESOTA MAKES A NEW DEPARTURE IN TAXATION

By CARL J. BUELL
(Secretary of the Minnesota Tax Reform Association, St. Paul)

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On April 11, 1923, the Minnesota Senate passed the house bill for the taxation of royalties received by the owners of mineral lands for permission to explore, develop, take out and ship iron or other ores.

Thus ends the second stage of a long contest to restore to the people, through taxation, a part, at least, of our great common heritage in the richest iron mines in the world.

## A Long Struggle

The contest has been long and bitter and the story is very interesting.

As soon as it was certain that northern Minnesota contained valuable iron deposits, the owners of these lands came to the legislature with what they called "a plan to encourage the industry of mining."

They asked that these ore lands be absolutely exempt from all taxation for any purpose whatever until the ore was taken out; that they would pay into the state treasury one cent for each ton removed.

Just how this plan would **encourage industry** they did not explain.

In 1881 the legislature fell into this trap and passed their bill. It remained on the statute books for sixteen years and of course worked disastrously.

## The Iron Ore Scandal

Not a dollar could we get from these rich ore lands for schools, or roads, for town, city or village purposes, for paving, sewers or water systems in the mining towns, nor for any other purpose. The whole mining country was destitute of everything that means civilization and decency.

It became a national scandal, and in 1895 I was asked by an eastern magazine to visit the iron country and, if possible, suggest a remedy.

The remedy was as plain as the side of a barn. Repeal the tax exemption law, and give the people of the mining country a chance to take in taxes for public purposes, a little of the value of the common heritage.

## Minnesota Wakes Up

My report fell into the hands of S. A. Stockwell, then and now, a member of the legislature; and the next session 1897, repealed the special law.

Then the mining country began to really develop. Schools, roads, bridges, paving, sewers, water systems and all the other needs of civilization could be met, and have been because the publicly-rated values of our common heritage would be had for public purposes.

Of course the iron land owners fought bitterly, but the people finally won, and the local communities are fairly well taken care of.

Thus ended the first victory of the people over the iron lords.

### The Problem of Mining Royalties

But this is not enough. Mining is an exhausting process. The profits of mining are the result of destruction—destruction of the natural resources. Nothing but desolation is left for posterity.

In all fairness, then, not only the localities, but the state should get a large part of the net profits of this destructive process.

We are wiser now then the people were then. We now retain title in the people to what little remains of our great natural heritage,

SCOOPING IRON ORE OUT OF THE MESSABE RANGE IN MINNESOTA

and thus secure for the public the **entire royalty** or **rent** of our minerals, timber, etc.

But when the title has already gone into private hands, the state has nothing left but the power of taxation; so we amended our constitution, in 1906, and provided that different classes of property might be taxed differently—some more than others.

Now the burning question was how to frame tax laws that would get for the state what justly belongs to the people, and at the same time not burden and injure the **mining industry.**

### Industry of Mining Should Not Be Taxed

Mining, like every other productive industry, should not be taxed, but the heritage destroyed in the process should be paid for.

It took many years and many failures to work such a system.

Session after session bills were introduced, and either failed to pass or were vetoed, because they would burden the industry, drive out the small operators who work on a close margin of profit, and bring injustice and disaster.

Finally in 1920 the Minnesota Tax Reform Association was organized with the present writer as Executive Secretary.

## Two Tax Bills Are Prepared

We prepared two bills, in consultation with the State Tax Commission and the Attorney General, viz.:

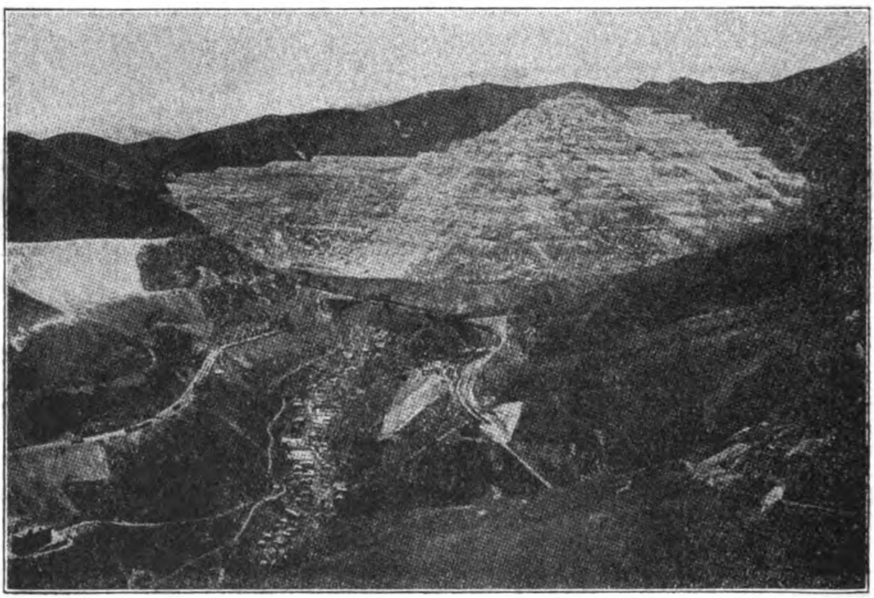
I. First, a bill to tax all who receive royalties 10% of the royalties so received.

II. Second, a tax of 10% on the **net profits** of all who engage in mining and shipping ore. This bill, so far as possible, levied no tax on the industry itself nor upon its output of ore; but upon the **net** profit. This **net profit** is the result of the destruction of the natural resource.

## Both Tax Bills Are Passed

Our job was not an easy one. The power of the steel trust was against us. The second bill passed in 1921, but the Royalty bill was

A MOUNTAIN OF COPPER AT BINGHAM, UTAH



defeated by a small margin in the senate, after passing the house 103 to 14.

Twenty-two senators who voted against this bill did not sit in the senate of 1923. Some were not candidates, but many were defeated.

So, on April 11, 1923, the royalty bill passed the senate 39 to 25 and is now the law of the state. It had passed the house 104 to 16, a month or more before.

This is a logical system. It taxes as fairly as possible both classes of ore land owners: First those who do not operate, but receive the heritage value in the form of a rent or royalty; Secondly, those who get this heritage value, this potential royalty—by operating their lands themselves.

Instead of 10%, these bills both provide for a tax of only 6%. It is not enough. Not half enough; but future legislatures can correct that defect, and doubtless will.

### Soundness of the Minnesota Law

The vital thing about these Minnesota statutes is this: They do not tax the industry, but they do get a part of the **land-value** for the benefit of the people.

The Alabama coal and iron taxes and the Pennsylvania coal tax are a certain per cent on the value of the product. Such taxes burden the industry, increase the price, and are passed on to the consumer.

Our royalty and **net** profit taxes do not increase prices, are not passed on to the consumer. They simply diminish the net profits, or net income of the fortunate owner of the title to our mineral lands.

If the state had retained title, all the rent or royalty, and all that part of the net profits due to the natural location or quality of the one would come to the state.

### The Problem of the Future

The problem of the future, not only in Minnesota, but in every state of the Union, is to so frame tax laws as to get as much as possible of this common heritage for the use of all the people.

We have set the example. I hope others will follow.

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## THE "PITTSBURGH PLAN OF TAXATION"

By THOMAS C. McMAHON

(Chief Assessor, Tax Department, Pittsburgh, Pa.)

Mr. Chairman and Members of the Manufacturers and Merchants Federal Tax League:

Responding to your invitation, I am glad of the opportunity to present to you the Pittsburgh plan of taxation. A wide-spread interest is being manifested throughout the country in this plan, which we believe to be the most progressive system of taxation in any city in the United States. It is especially interesting to those who are engaged in industrial and commercial enterprises.