TAX FACTS

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A Straight Two Per Cent Tax on Corporations A Two Mills Tax on Intangibles

(An open letter to the members of the California Legislature)

Members of the Senate and Assembly:

The Tax Relief Association of California begs leave to submit the two following recommendations in the matter of the two tax bills now before the State Legislature. We recommend—

1. Make the tax on intangibles as low as possible—not over two mills—on the ground that this form of taxation is double taxation at best, and on the further ground that the law of competition between the tax systems of the different States makes it desirable that the California rate be as low as possible. If California is to assume the financial leadership of the Pacific Ocean area that New York has assumed of the Atlantic Ocean area, California really should follow the example of New York and have no tax at all upon intangibles.

2. Make the income tax on banks and business corporations a straight two per cent with no offsets or rebates to anybody. This will undoubtedly produce as much or more net income to the State treasury as will the proposed four per cent rate with the proposed offsets for personal property taxes paid locally. This provision for offsets will complicate the whole corporation tax plan and will be a constant incentive to local assessors to raise the local personal property taxes of corporations in order to 'rain the tax money into the local tax .reasuries, (county, city and district) rather than let it go to the State treasury. This would result in a vicious circle of tax raises, first the State, then the local governments, then the State, etc., each trying to beat the other in this endless tax grab game. The present condition of the State treasury is such, that it will be perfectly safe for the State to levy the straight two per cent tax on corporations, without offsets to anyone for the next two years, and find out by experience if this does not produce adequate revenue. We believe it is more apt to produce a surplus than a deficit.

The fact that the federal laws make it difficult to tax national banks as high as some would like is no reason why California should tangle up its whole tax system in a futile effort to tax banks severely. In the last analysis, a tax on banks, like a tax on mortgages, is a tax on debtors.

The law of competition between the tax systems of the different States makes it desirable that there be no State income tax at all upon California corporations, (allowing them to pay their regular property taxes), but if the necessities of the State treasury require some form of corporation income tax, then a simple, straight tax of two per cent is much preferable to a tax of four per cent, with complications in the form of offsets, and with incentives to local assessors to boost local personal property taxes.

Respectfully submitted,

Tax Relief Association of California

Stoughton Cooley, Secretary

February 23, 1929.

HOME BUILDING

An enterprising development firm of Los Angeles sets forth some alluring inducements for buying land in the orange belt. The particular place in question appears to have a multitude of advantages. One simply could not possibly make a mistake, even if he bought by mail.

Photographs show land pleasant to the eye. The accompanying text recites the fertility of soil, fine shipping facilities, and perfect marketing conditions.

In addition to these many and substantial attractions there is the prospective increase in population, and the certainty of the growth of land values. The near-by city with a population of 18,000 in 1920, now has 43,000.

That this stands to land values in the relation of cause and effect is attested by the cited instances of rising prices. Heavily producing orange lands that could be had for $3,000 per acre now command $5,000 and $6,000. The prediction is made that within five years they will sell for eight and ten thousand dollars an acre.

Not less remarkable are the advances in lot values. A lot selling for $19,440 four years ago, now brings $50,000. Another lot priced at $750 five years ago has recently been sold for $12,500. And the official organ says of the outlook:

> In view of the Boulder Dam activity there is every indication that even more startling increases in value of property in and around the city will come with the growth in population anticipated in the coming four or five years.

How familiar the words. The climate, the soil, the society, the transportation facilities, the Boulder Dam, each and every one attracts people from other parts of the world—and land values are sure to advance. Therefore, buy now.

Are the leading citizens of the community, the educators, ministers, financiers, statesmen, are these giving a thought to this situation? If the incoming hosts make $3,000 land sell for $5,000 or $10,000, does it not mean that these newcomers will have to pay double?

Does not equity require that our laws recognize this relationship of cause and effect? Does not a certain moral responsibility rest upon the leading citizens of the community to see that our social institutions establish a closer tie between the producer and his product?

REAL ESTATE BUSINESS

Editor TAX FACTS. Why are you forever picking on realtors and land speculators? Is it not lawful to buy and sell land as anything else? You are clamoring for tax relief to business. Isn't dealing in land a business, just as much as buying and selling clothing or groceries? Why pick on Realtors?

Fairplay.

TAX FACTS is not "picking" on realtors. On the contrary it approves of the constructive work of realtors, and wishes to lighten their tax burdens along with those of other business men. The realtor who lays out a needed subdivision, putting in streets, pavements, lights, etc., is deserving of compensation. The realtor who aids the home seeker, merchant, or manufacturer to find a desired location has earned his fee.

But among these serviceable agents of the public are intermingled a great many persons who merely buy land, and "hold it for a rise." Whether these persons be dignified with the term "realtor," or bear the simpler title of "speculator," they are different from the real, constructive realtors.

The man who buys a printing press does so for the purpose of supplying printed matter to consumers. He does not hold it idle for a year, or ten years, to profit by its increase in value. But the speculator puts the same amount of money into land, allows it to stand idle for a term of years, and then sells at a profit.

A speculator buys two lots for a thousand dollars each. A home builder buys a lot beside them for a thousand dollars. In addition, the home builder puts up a building for another thousand dollars. The community taxes the speculator $40 and the home owner $40. The lots rise in value alike. The house does not increase in value. It decreases as it grows old.

In the eyes of the assessor the two men have property of the same value. Legally they are taxed the same amount. But are their investments of the same nature? Should they be taxed alike?

Pennsylvania, recognizing this difference, has empowered second class cities of the State to tax buildings at one-half the rate of the tax on land. What moral objection can be made to such a plan? If California should adopt the so-called Pittsburgh plan, the practice would be legal here.

Would "Fairplay" say that the change in the rate of taxation on the two classes of property, land and improvements, savored of "picking" on realtors?

The holder of vacant lots employs no labor, and produces no wealth. The home builder, the merchant, and the manufacturer employ labor, and enrich the community. If all lot owners allowed their land to stand idle there would be no city. If the speculator is dependent for his profit upon the men who build, who employ labor, and who produce wealth, is it unreasonable to ask him to pay at a little higher rate than those who create his profit?

THE FARMER HAS AN IDEA

Editorial in The Rural New-Yorker, January 26, 1929, the Business Farmer's Paper established, 1850:

Our correspondence indicates that many farmers have come to adopt economic rent as a basis for taxation. They seem for the most part to have worked this out in their own way, without identifying it with the old "single tax" ideas taught by the old economists. The principle of economic rent is that rent is the amount (or value) of oducts received from the land above the it of production. When land is so poor that it produces only enough to pay the cost of culture, there is no rent. Of course this applies to land used for residential and business purposes as well as to cultivated areas. Under a system of taxing rent values, there is no tax on improvements. To suddenly adopt the rent value as a basis of taxation would work an unfair hardship on people who would have invested their savings in land values under the present system as a protection for old age or for dependents. But this difficulty could be overcome by taking, say, 5 per cent off the assessments of improvements and adding it to land values for 20 years, when the improvements would be taxless. Farmers as a whole have been shy of the so-called "single tax" plan because it looked like an extra burden for their larger acreage, but by their own process of reasoning they are now coming practically to the same thing in demanding that all taxes be collected on net income. While not fully the same thing, it is nearly the same in principle. There would be no tax except when there is a profit from the use of land alone, and se farmers begin to see that the enormous rental values of city lands now going to a few individuals would pay the taxes of the nation.

A CAUSE OF UNEMPLOYMENT

A typical example of the misuse of our natural opportunities for employment and production is a private park in Cheshire which comprises 1957 acres, is nine miles in circumference and contains 1000 deer. If cultivated with ordinary farming methods 75 men could be employed on this land; under modern improved methods 280 men would be employed, and with intensive methods no fewer than 3,772 adults could be profitably working in food production in this "gentleman's garden."

In official returns private parks are included with "grazing land," and as agricultural land is exempt from local taxes, the owners of such opportunities for useful employment are encouraged to withhold them from the people, and so perpetuate the congestion and unemployment in the urban districts which gives plausibility to the cry of over-population. The taxing of all land on its unimproved selling value would open up the "great empty spaces" within our own shores. — *The Porcupine, Manchester, England.*

War clouds have no silver lining except for profiteers.—*Norfolk Virginian-Pilot.*

According to the Rev. J. T. Rhys, there are no swear-words in Welsh. But there is Welsh.—*Punch.*

This age isn't more wicked than the age of our fathers—it just fails to pull down the shades. —*Washington Post.*

It is too bad the whaling business is a thing of the past, not only on the ocean but in the home. —*American Lumberman (Chicago).*

Almost any time now we may expect to see the restaurants retaliate by putting in a line of drugs and toilet articles.—*Louisville Times.*

Secretary Wilbur says the navy is unready for war. By an amusing coincidence, there is no war ready for the navy. —*The New Yorker.*

We hope that the repaired parts of the Frigate Constitution do not leak as badly as some of the repaired parts of the U. S. Constitution.—*Brunswick (Ga.) Pilot.*

If a resolution indorsing the Ten Commandments were introduced in the Senate it would be loaded down with 110 restrictions.—*New York Evening Post.*

A woman's clothes are her sentiments expressed in fabrics, says one of our leading novelists, and, as you so often hear, there is very little sentiment these days.—*New York Evening Post.*

An expert has figured it out that the electoral energy developed by five million persons, all talking at once, would keep just one incandescent light going. That helps to understanding of how little illumination comes from most conversations.—*Manchester Union.*

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FARMING OUT TAXES

In a simpler, cruder age, before the days of budgets, and accounting by checks and balances, it was the practice of the ruling tyrant to require of a governor of a province, or satrapy, a given sum of money. The governor, or satrap, passed the demand on to minor officials, each of whom was required to collect from a prescribed territory a given sum.

The tyrant got his money from the governor; the governor got it from his understrappers—plus a goodly sum for himself; the understrappers collected it—plus what they kept for themselves—from the subjects. To say that much of the money paid by the subject never reached the tyrant would be a truism.

That form of taxation has been discarded in enlightened countries. Subjects have become citizens. Tyrants have been superseded by public servants who serve by rules laid down by the people themselves. Yet it is surprising how long a substance will remain after the form has been changed.

It is now the practice in California, for instance, to list in the official public records the names of all persons who own certain kinds or amounts of property. These persons are called taxpayers. Others who lack these holdings are not listed, and are called non-taxpayers.

Thus one may imagine a rancher listed as a taxpayer because he has raised a steer. Since this tax falls upon all steers, and becomes a part of the overhead in the operation of the ranch, it is added to the price when the hide is sold to the tanner.

The tanner also is taxed on his tannery. This tax becomes a part of his overhead, and is added to the price of the leather—plus the price of the hide and the tax on the hide paid by the rancher.

The process continues on through the manufacturer who turns the leather into shoes, the wholesaler or jobber who distributes them, and the retailer who sells them to the consumer, each adding his own tax and the taxes of each one before him, together with a profit on the tax.

The person who finally buys the shoes for use thus pays all the expense of their making and handling, including all the taxes, though he himself owns no taxable property, and his name does not appear on the tax roll.

A tax laid upon a large manufacturer or merchant looks like a formidable sum. The payer of that sum is looked upon as an important citizen. When he speaks, officials pay attention.

But if one follows that large sum paid by the big business man through the various channels of trade, swelling as it goes, until it reaches the final consumers, by whom it is paid in myriads of small sums, the matter assumes a different aspect.

The owner of an apartment valued at $200,000 is listed as a taxpayer, and pays annually to the tax collector $8,000. Twenty families may occupy the apartments, not one of whom is listed as a taxpayer. Yet the whole income from the building, interest, insurance, janitor service, and tax comes out of the tenants in their rent.

Is there, then, so very much difference between the ancient tyrant's system of farming out taxes, and our system? Ours is more orderly and systematic—possibly less wasteful—but the consumer pays.

The consumer always pays the tax on trade and industry. When legislators and so-called tax experts talk of broadening the base of taxation, of laying the tax on more shoulders, it would be amusing—were it not so tragic.

Since all persons are consumers, and all taxes on production enter into price and are paid by consumers, we now have the broadest possible tax base. The problem is not to broaden the tax base, but to adjust the levy so that it will fall upon the consumer in proportion to what the taxing body does for him.

The tendency in advanced communities is away from taxes on industry and toward a heavier tax on lands held by speculators. The land speculator, be it observed, produces nothing, and hence cannot pass the tax on to the consumer.

It is no longer good form to ignore the incidence of taxation while trying to raise revenue. It just isn't done by persons who have any regard for their reputation as economists.