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TAX FACTS

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Giving The Legislature a Hard Job

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Why Make the Corporation Tax So High? — The Tax Commission and the State Legislature are having difficulty in ρrking out the details of the revenue gislation authorized by the new tax amendment adopted by the voters at the November election.

Much of the difficulty arises out of the fact that the Tax Commission is recomending a State income tax on all ordinary business corporations, of four per cent of their net income,—with certain offsets allowed —when a tax of less than one per cent of the net income of the corporations would raise exactly as much money for the State treasury, provided the aforsesaid certain offsets were not allowed.

Manifestly a one per cent tax would be easier for our business corporations to pay as a matter of expense, than the proposed four per cent tax would be.

Manifestly a one per cent tax would be easier for our business corporations to pay in competition with similar corporations in those other States which pay no State income tax at all.

Manifestly the business corporations of California are already paying enormous Federal Government income taxes, and so —with the corporations of other States— are carrying the bulk of the cost of the World War.

Manifestly the business corporations of California are carrying on the bulk of the necessary and desirable processes of production and distribution in our State.

Why Have Any Offsets.—What are these "certain offsets" the allowance of which makes it necessary for the proposed State income tax on corporations to be four per cent, instead of less than one per cent if the offsets are not allowed?

The Tax Commission recommends to the Legislature that the State levy a tax, on all ordinary business corporations, of four per cent of their net income; but that the State allow each corporation an offset against—or credit against—its State income tax of a sum equal to whatever local (city, county, or district) personal property tax the corporation may pay, up to an amount not exceeding ninety per cent of the State tax.

The argument behind this complicated method of levying a tax (any complicated tax is bad—all should be as simple as possible) is that inasmuch as banks and certain affiliated financial institutions pay very little local personal property taxes, they will not have much offsets to offer, and so will pay nearly the full four per cent tax. And so for the sake of the relatively high tax on banks, we must have this complicated form of State income tax on all ordinary business corporations, accompanied by a high rate on all such corporations as do not pay a large amount of local personal property taxes.

Do We Want To Soak the Banks?—Why should we want to tax the banks at a high tax rate? Who pays a bank's taxes? Who pays its clerk hire and its rent? Who pays the running expenses of any business? The customers of the business, of course.

The customers of a bank, the borrowers of money, they pay the bank's expenses, including its taxes. A high tax on banks means high interest rates. It is a high tax on debtors; and in this case the debtors are principally the business men and business corporations and farmers of the State.

California long since repealed its tax on mortgages because it was seen to be a tax on debtors, and not as had been supposed, a tax on rich men. The same is true of a bank tax. There is no use in complicating our State tax system for the sake of a high tax on banks.

Storing up trouble—In practice, grave difficulties will arise from this complicated high State income tax on business corporations. The hungry assessor of a tax-poor county (and they all feel that way) will hunt up every corporation that is paying a State income tax, and will say to it: "Our county, (or city, or school district, or cemetery, or sewer maintenance districts, or waterworks district, or lighting district, or metropolitan water district, or East Bay district, or north side district, or local State park system district, or municipal improvement district no.——, or inter-county highway or bridge or something or other district, or any other kind of a tax-hungry district) needs your tax money more than the State does, so I am going to raise the assessment on your personal property just as high as I can. You needn't worry about it, for I will be careful to keep your local personal property tax a little less than your State income tax; and what you pay me you can turn in as an offset to the State, and so pay that much less income tax to the State. The only difference will be that we honest, local officials will get the money for our pressing local needs, instead of its being sent up to those grafters at Sacramento."

It will be a great tax system, if the local assessors don't weaken. And bear in mind that all these ridiculous features of the proposed complicated, high tax rate on all ordinary business corporations grow out of the unwise effort to have a relatively high rate on banks—that is to say, a high tax on debtors.

What Should Be Done—The Legislature should ignore the recommendation of the State Tax Commission for a State income tax of four per cent on business corporations, with offsets allowed for local personal property taxes paid, and instead should levy a straight State income tax on the business corporations of one per cent or less, and omit the offsets entirely. Under the constitutional tax amendment, the Legislature can exercise its discretion in this matter.

BEAUTIFYING THE CAPITAL

The Capitol and the White House at Washington are connected by Pennsylvania Avenue. It is broad and straight. Down it pass the incoming and outcoming Presidents. Along it pass the historic armies and civic parades. It is in a way the official center of the nation.

"Yet, never in the days of either ancient or modern world," says Secretary of the Treasury Mellon, "has any one seen before a great triumphal way borded, throughout much of its length, by gasoline stations, lodging houses and Chinese laundries."

Congress, it is reported, has at last been shamed into doing something, though the what and when and how are still to be determined. It might be well to inquire, however, how such a situation came about. There might be a lesson in it for our own city planners.

Washington was laid out as an ideal city from the very beginning. Every avenue, street and park was mapped before a brick was laid. The Government has expended hundreds of millions of dollars. Why, then, is the city's most important street in the condition described by the Secretary?

The answer is, land speculation. The men who founded Washington spread the ideal plan of l'Enfant over the plantations, woods, and swamps, laid out the streets, constructed the government buildings—and left the speculators to reap the profits.

The owners of lots had no need to build, in order to enrich themselves. The Goverment erected the principle buildings, and paid one-half of the taxes. Necessity compelled a large number of people to live in Washington, which enabled the speculators to fix their own prices. Buyers who thought them too high paid more at a later day.

The speculator did not worry. A shack housing a Chinese laundry or a cheap boarding house, would pay the taxes; while the in-coming population and enormous government expenditures for public buildings kept the values rolling up year in and year out.

It is too late to adopt the policy of Canberra, the new Australian capital. The Australians, profiting by the experience of America with its capital, retained ownership of the land in the federal district, and lease it to those wishing to use it.

No one in Canberra will ever have Chinese laundries and filling stations on the chief throughfare.

But though we cannot imitate Canberra, we can follow the example of Pittsburgh, in taxing improvements at half the rate of lots. Nay, we can venture farther. We can take all the taxes from improvements and personal property.

When the owner is taxed the same whether his lot bear a Chinese laundry or a beautiful modern building, the shacks will quickly disappear from Pennsylvania Avenue, and from all other valuable land in Washington.

FORESTALLING THE FUTURE

"What will be your share of the untold millions that will pour into the Southland as a result of Boulder Dam activities?" Thus a Los Angeles realtor begins his flaring advertisement of a subdivision.

Another advertisement quotes statistics to show California will have a population of 10,000,000 in 1935, and admonishes: "Now is the time to buy."

The chief engineer of the Los Angeles bureau of power and light estimates the increase of wealth in this region, due to the Boulder Dam, at $14,000,000,000, and the annual increase in the product of industry, including agriculture and manufacturing, at $4,500,000,000.

Should one be surprised at the activity of the land speculators? No sooner was the Boulder Canyon bill signed by the President than they broke into such a mad frenzy that chambers of commerce, realty boards, and the officials of the United States Land office at Los Angeles felt called upon to warn prospective buyers to beware of sharpers.

The sharpers referred to are those raw, crude scoundrels who are selling to strangers barren lands that cannot be reached by Colorado River water. But there are other men in the business, who though they are within the law, will take a far greater toll.

Colorado River water will not be available in Los Angeles territory until there has been constructed an aqueduct costing twice as much as the dam itself. The question is who is going to benefit financially.

The speculator who asks "What will be your share of the untold millions that will come into the Southland as the result of Boulder Dam activities?" knows what he is talking about. That water will bring here millions of people, and those people will bring hundreds of millions in land values.

The 250-mile aqueduct that supplies Los Angeles with water from Owens Valley added hundreds of millions of dollars to the land values in this vicinity; yet its bonds were met by a general tax, which fell upon persons whose property was not enhanced in value, as well as upon those who made fortunes from the rise in land values.

That should not happen again. The people who come here in response to this supply of water will bring with them billions of dollars in land values, only to find a large part of it absorbed by forestalling speculators.

NOTES

A Hollywood wedding is, as a rule, a re-take.—*Arkansas Gazette.*

The inferiority complex would be a fine thing if the right people had it. —*Fountain Inn (S. C.) Tribune.*

It often happens that a man is not suspected of being dumb until he begins to talk. —*San Diego Union.*

It's just as well that the meek inherit the earth. Nobody else would stand for the inheritance tax. —*Norfolk Virginian-Pilot.*

Too often a fellow decides to take a dip in the stock market just when the stock market decides to dip. —*Norfolk Virginian-Pilot.*

If there is anything in the world which will make a United States Senator fight it is a peace pact. —*Norfolk Ledger-Dispatch.*

Scientist says plants make love like human beings, but somehow we can't imagine the poison ivy talking baby talk. —*Macon Telegraph.*

Feeding the office seekers in time of peace will tax Mr. Hoover more than Belgium or Poland did in time of war. —*Springfield Republican.*

When the meek inherit the earth it is going to be worth walking across town to see the unmeek take it away from them. —*Macon Telegraph.*

"Americans want both Prohibition and Liquor," says a writer in Mercury. They also wanted both Hoover and Smith—but not the same Americans. —*Fountain Inn (S. C.) Tribune.*

The coming national census will cost $19,000,000. Much of this expense might be avoided and the population greatly increased, by turning the estimates over to municipal chambers of commerce. —*San Diego Union.*

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DO WE TAX PEOPLE OR THINGS?

"Tax every dollar alike," is the slogan on the letter head of the American Taxpayers League, with headquarters at Washington, D. C. But why? Why tax every dollar alike, any more than every quart, or every pound?

Much confusion prevails in tax matters because fundamental economic principles have been ignored. To begin with, we do not tax dollars or things at all. We tax persons who own or control things. But while all property is valued in dollars, the several kinds of property differ in other respects.

Property that can be duplicated or multiplied indefinitely, such as houses, furniture, etc., will not rise in value from increased demand. Whereas, property that is fixed in quantity, and cannot be duplicated, such as land and certain franchise monopolies, does rise in value with increased demand.

Manifestly, then, government action that increases the demand for property affects the interests of the owners according to the ***kind*** of property, and not according to the ***value*** of the porperty.

Hence, taxes should be laid upon the citizen, not according to the amount of dollars worth of property he owns, but according to the service the government renders in enhancing the value of his property.

Government activities are confined within political boundries. To enjoy the service of the government of Los Angeles, for instance, one must be within the city of Los Angeles. To have the benefits of the police and fire departments, the streets and parks, the schools and libraries, one must be within the city.

Being in the city is conditioned upon occupying somebody's land. One may bring in his own food, clothing, or shelter, but he cannot bring any land. If he wishes even to eat the food he has brought he must do so on somebody's land, for even the streets and parks are owned by the city, and one may use them only on terms laid down by the owner.

Since price is fixed by supply and demand, the supply of land being limited, an increase in demand will be followed by an increase in price. This is what happens when the city paves a street. The lots along the street become more accessible, they are more desirable, and the greater demand sends up the price.

A century ago it was the practice for government to pay for the pavement by taxing all citizens according to the amount of property they owned, that is, it was the practice to "tax every dollar alike." But it was finally discovered that the new pavement did not result in increasing the value for reproducible things, such as houses, furniture and goods.

Since that discovery it has been the practice in enlightened communities for government to pay for street pavements by taxing the owners of land only. Experience and long practice have not only vindicated this course, but they have prompted exceptionally enlightened communities to extend the principle.

Nor have we reached the end. A great principle underlies the practice of laying the tax on the citizen whose property has been increased in value by the government service.

If street pavements, drainage systems, irrigation works are constructed by a tax on land values because they add to those values, may not other government services be defrayed in the same manner?

A good school in the neighborhood, an efficient police and fire department, courts, libraries, parks, and all that adds to its attractiveness as a place or residence or business; these bring in more people, and more people—by their competition for space— send up the value of land, but do not change the value of movable goods.

The very foundation of American institutions is the principle that all men have equal rights. If government, through its activities adds to the value of the property of some citizens, but does not add to the value of the property of other citizens, does not fair play require that taxes be levied accordingly?

Instead, then, of taxing every dollar alike, should we not continue the present tendency, and adjust the tax system so that each citizen will pay according to the service received from government!