TAX FACTS

Published in the interest of SOUND ECONOMICS and AMERICAN IDEALS

Vol. VIII. Los Angeles, California, November, 1929 No. 7

TAX RELIEF

Brief Filed With the California State Tax Commission On Behalf of the Tax Relief Association of California

Prepared by George H. Dunlop

Any proposed changes in the tax system of California should be studied from four points of view:

1. The effect upon the State revenue.
2. The effect upon the administration of our tax laws.
3. The effect upon the economic life of the State.
4. The political possibilities of its adoption.

Apply these four points to the following proposed change in our present tax system:

> Proposed amendment to our present tax system. Exempt from taxation the following forms of tangible personal property: Wearing apparel and household furniture in use, stored crops and food products in the hands of the producer or in public warehouses; live stock; tools and machinery in use.

1. The effect upon the State revenue.

The decisions of the United States Supreme Court in the matter of bank taxes make it necessary for the State of California to make up, from other sources, some of the loss involved in the partial failure of our bank tax law. The present four per cent State income tax paid by corporations and banks into our State treasury, is not four per cent net, but four per cent, less certain personal property taxes that the corporations pay locally, that is, to the cities and counties, and other local tax districts. If these deductions, or offsets, for personal property taxes paid locally, were not allowed to the corporations and banks, the State revenue from the State four per cent corporation income tax would be much larger, and this would make good to the State revenue the loss from the invalidation of the State bank tax.

The best way to get rid of the deductions allowed from the four per cent corporation tax is to abolish, in whole or in part, the local personal property taxes that form the basis for the deductions. Thus the State will receive more net revenue from its corporation income tax without any corporation's paying any increase in its total taxes, State and local.

If the several forms of tangible personal property named in the proposed amendment to our present tax system, as set forth in the beginning of this brief, were exempted from taxation, then, and in that case, large sums of money now paid by various corporations as local personal property taxes upon such articles as stored crops and food products, live stock, tools and machinery, would not be so paid, and would not serve as a basis for reductions from their State income tax; and by exactly an equivalent amount the net State revenue would be increased. Thus would the loss from the invalidation of the bank tax be made good.

2. The effect upon the administration of our tax laws.

The personal property tax upon wearing apparel and household furniture in use, is an object of criticism by practically all students of taxation. Broadly speaking, the expense of collecting the tax is as much as its net worth to the cities and counties. It is a source of inequality in actual administration, of dissatisfaction and tax dishonesty. It is especially burdensome to farmers, workers and persons of small means. Nobody defends it—why keep it?

Some of the forms of tangible personal property listed in the proposed amendment may not be entirely profitless as sources of revenue, but they all give rise to inequality, dissatisfaction and tax dishonesty. Two previous tax commissions of the State of California have expressed disapproval of personal property taxes.

The statement is sometimes made that our personal property taxes should not be abolished until we have a more complete State income tax. The argument is not a good one, for California citizens should never be discriminated against, as compared with the citizens of a majority of the other States, by being compelled to pay a personal State income tax. But even if the argument were good in the sense that personal property taxes should be repealed only to the extent that a State income tax is levied, still, such measure of exemption as is set forth in the proposed amendment, would be justified.

The proposed amendment does not repeal all personal property taxes, by any means, and we already have a big part of a State income tax system in our present State corporation income tax. The personal property tax exemptions provided for in the proposed amendment would be of particular benefit to farmers, and as farmers, as a class do not pay much of an income tax, it is not necessary to await the day when a State income tax shall be levied upon them as individuals before giving them the benefit of repealing the proposed personal property taxes.

The administration of our local tax laws would not only be simplified by the repeal of the personal property taxes listed in the proposed amendment, but the change in the date of the annual assessment from the first Monday in March to the first of January, as desired by many county assessors, would be greatly facilitated.

The first of January date has always been opposed by the farming interests of the State because on that date farmers and dealers in farm products have much larger stocks on hand, subject to taxation, than they have later in the season on the first Monday in March. With all taxes repealed on stored crops and food products the agricultural interests would not object to the change in date, which is otherwise so much to be desired. Furthermore, if an assessor's office is relieved of the multitudinous, but often profitless detail of the personal property taxes proposed to be repealed, the assessor will have more time for the more important work of assessing fairly and adequately the real sources of local taxes.

3. The effect upon the economic life of the State.

The proposed amendment would be of direct benefit to the agricultural and manufacturing interests of the State, and through these fundamental interests to the whole State.

The repeal of the tax on stored crops and food products would facilitate the holding in California and the building of local spot markets, of grain, cotton, raisins, fresh, dried and canned fruits, canned fish, processed meats, milled grains, butter, eggs, canned milk, etc. There would be no forced, uneconomic, premature shipping of these articles out of the State in order to avoid the first Monday in March, or the proposed first of January. These products of the State would be as tax free in California as they would be if prematurely shipped to New York or London, where they are practically free from taxation.

The repeal of the tax on live stock and processed meats would build up a great agricultural interest, not so much for the "fly by night tenant farmers," but for the permanent, farm owning farmers, and tenants who are struggling to become owners. The elimination of the tax on tools and machinery would also benefit agriculture.

The elimination of the tax on tools and machinery would, in this one particular, put the manufacturers of California on a par with the manufacturers of Pennsylvania, and other States, where there is no tax on tools and machinery. Why should a young manufacturing State like California, handicap itself in competition with an old established manufacturing State, such as Pennsylvania? And Pennsylvania has no personal State income tax, either. They didn't wait for that.

Who would make up the loss from the repeal of the taxes on personal property listed in the proposed amendment? In the first place, the loss from the repeal of the tax on wearing apparel and household furniture would not have to be made up, for the cost of collecting this profitless tax would be saved, and the governmental expense reduced by that amount. As to the rest, a very large percentage of this theoretical tax would not have to be made up because it is not collected now. By reason of lax custom, favoritism or fraud, much of the personal property tax proposed to be repealed is not collected now. And that which is collected comes from the farmer out of all proportion to his wealth, because his personal property is in plain sight; while a single painting in the house of a millionaire, evading the unpracticed eye of the assessor, may be more valuable than the personal property on a dozen farms.

It must further be kept in mind that the proposed exemptions apply to only certain specified classes of tangible personal property, not to all of them, and not to intangibles at all. As to the actual net reduction in local tax revenues that would result from the adoption of the proposed amendment, this loss could most simply be made up by a small increase in the assessed value of real estate. Where real estate is properly improved there is always considerable personal property, and a slight raise in real estate taxes may be more than offset by the proposed decrease in personal property taxes. A relatively slight shift in the incidence of taxation may make a great difference in the general prosperity of the State, in which all may hope to share.

Unimproved land would pay slightly more taxes. This would be fair, as much of the value of unimproved land is due to the activity of those now paying the personal property taxes. Furthermore, the increased prosperity of agriculture and manufacturing arising from the proposed exemptions would indirectly tend to advance the value of all land within the State.

4. The political possibility of its adoption.

Will the voters of California support the neces- ·y amendment to the State Constitution which .e proposed exemptions of the specified forms of personal property would require? We think they would. Let us take note:

The exemption of wearing apparel and household furniture would be popular with every one. Many who would save no actual money by the legal exemption would be glad to save their consciences.

The exemption of live stock, stored crops and food products, would be popular with the farmers and the city consumers. This exemption would mean a tax taken off the high cost of living—cheaper butter, eggs, meat, milk, etc.

The exemption of tools and machinery would be popular with the farmers, the manufacturers, and the great multitude of land owners interested in developing manufacturing in California. Manufacturing means larger markets for California farm products, and increased demand for California land. The widespread public sentiment in favor of doing something actual more than just talk for "farm relief" would be a political asset in favor of the proposed tax exemptions.

Each county, whether urban or rural in character, would consider the exemptions from the standpoint of that county alone, unrelated to other counties, for under our California tax system each unty is a unit unto itself in the matter of tang-.le personal property taxes.

Those who are concerned in seeing the State government, as such, have adequate revenue, would favor the plan as the best way of making up the loss of the bank tax.

Far-seeing economists would realize that adequate State revenues will be necessary in the future, as the State finds itself forced to bear a larger and larger proportion of the expenses of education and law enforcement. This has been the experience elsewhere in this country and abroad.

Interests now taxed by the State government would rather see the State revenues increased by our proposed amendment than by a rise in the special rates now applicable to them.

Students of tax problems who believe in simple, uniform, efficient tax systems would support the measure.

Give this proposed amendment to our tax system the dignity and standing it would acquire from the recommendation of the State Tax Commission and the State Legislature, and the political prospects of the measure, on a popular vote, would be most excellent.

REASURING THE REALTOR

(That not all realtors are playing the roll of "dog in the manger" is evident from the following article by R. E. Chadwick, Los Angeles realtor, in the Bell (Calif.) *Herald, of which he is editor and publisher.)*

Realtors are alarmed over what they consider to be a plan or program designed to place additional tax burdens upon realty. They assert that fully 80 per cent of present taxes are paid by owners of real property and that personal property is escaping just taxation.

In considering the problem, however, we are of the opinion that realtors are allowing their proper interest in their business to close their eyes to the real facts respecting questions of public finance.

Assuming that within a given area all taxes are raised by an ad valorem tax upon land and all improvements and personal property are exempt, where would a man of wealth prefer to live: within such an area or outside its borders where all his tangible wealth was assessed and taxed?

If Los Angeles raised all public revenue by an ad valorem tax upon land, realtors, always alive to every progressive move, would be the first to herald that fact to the world.

Realtors are needlessly alarmed at the prospect of increasing taxation of land values to the point of confiscation. There is not even a remote possibility of any such development.

The Vancouver fiasco in land taxation is given as an example of the danger of land value taxation. The true story of that seeming failure would be an indictment of wild, woolly and weird subdivision exploitation that made a lot of speculation a certainty.

When thoughtful realtors—and there are hosts of them in our state—follow reason rather than emotion, they will encourage and direct the conservative shifting of the tax burden from personal property and improvements to an ad valorem tax upon land, with resulting business for themselves and prosperity for their state.

TAX FACTS

Published Monthly
By The Tax Relief Association of California
418-420 American Bank Bldg., Los Angeles, Cal.
Phone: Tucker 2417

EDITOR ....STOUGHTON COOLEY

Subscription per year 50 cents

Vol. VIII. Los Angeles, Cal., November, 1929. No. 7

RESCUING PROSPERITY

President Hoover made a shrewd move when he called together in conference at the White House the leaders of capital and labor, and pledged them not to rock the boat while passing through this turbulent financial sea.

The rail men have assured the President and the public that large extensions will be made. Manufacturers and merchants agree that expansion and not retrenchment is the word. The bankers applaud all this, and promise plenty of money at lower rates.

Henry Ford goes them one better. He declares wages must be raised, and promises an advance for his 200,000 employes. In addition, the auto genius offered as other remedies for the situation: that brains should get back on the job, and let the stock ticker alone, and that there should be lower prices for commodities. The country gains no benefit, he said, by letting the working man earn an extra hundred dollars, and then taking it away from him in increased rent.

So far, so good. It would be churlish, indeed, to say the President is making a desperate effort to stave off a business collapse during a Republican administration. Business depression means men out of work. It means suffering of all kinds, and an arrest of the cultural growth.

Appreciation of the President's act, however, should not bar us from pointing out its limitations. He has succeeded, in this time of confusion, in getting these men of affairs to carry on. This means employment of labor, the production of goods, and the enrichment of the country to-day; but what of tomorrow?

Stated in simple terms the problem is not hard to grasp. Prosperity means the employment of labor at good wages, and the use of capital at fair earnings. High wages lead to greater consumption, which in turn means the further expansion of business.

Business cannot expand, however, without using more land; and since the quantity of land is fixed, demand is followed by a rise in price. As the greater production of buildings and goods tends to lower their price and increase the price of land, speculators put their money into vacant land to benefit by the rise.

This competition of speculators with business men for land leads ultimately to a land boom when, as in the Wall Street frenzy, prices of sites mount so high that business no longer can produce goods at a fair profit and pay living wages.

When earnings fall off, capital protects itself by withdrawing from business, industry slows down, the "land boom" bursts, and the speculative price of sites returns to real values. Capital then reenters business, labor is employed in production, and we have prosperity.

This is the normal course. It has been repeated again and again, both locally and nationally. It will continue to occur as long as speculators are permitted to make money out of land without producing wealth or employing labor.

What may be expected of President Hoover's plan? Business has been slowly readjusting itself to the slump that followed sky-rocketing war prices. Speculative prices of land have been slowly approaching use values.

This readjustment will continue—if there be no outside interference—till capital can again enter business at a profit. If, however, the Government begins its $423,000,000 building plan, and the commercial interests renew activity before speculative prices in sites have been lowered, matters will be complicated.

This gentlemen's agreement entered into at the White House, if carried out, will check the slump in prices of business sites; speculators will return to the charge; and prices, still far above real values, will be forced to even higher speculative levels. There will be no more stopping the rise than of checking a Wall Street panic.

Henry Ford, whose working philosophy has been higher wages and lower prices, says commodities must be cheaper. But can any one imagine speculators offering building sites at lower prices. On the contrary, they have already, in their minds, marked up their holdings, and are prepared to take advantage of the first evidence of the President's prosperity.

Unemployment is due to the fact that capital finds greater gains from investing in idle lands that employ no labor, than it does by going into productive industry, where it does employ labor. President Hoover and the leaders of business may revive industry temporarily, in spite of land speculators, but it will be only to see it collapse in the end.

Not until the profit in holding idle land has been destroyed will capital and labor find steady employment at fair returns.