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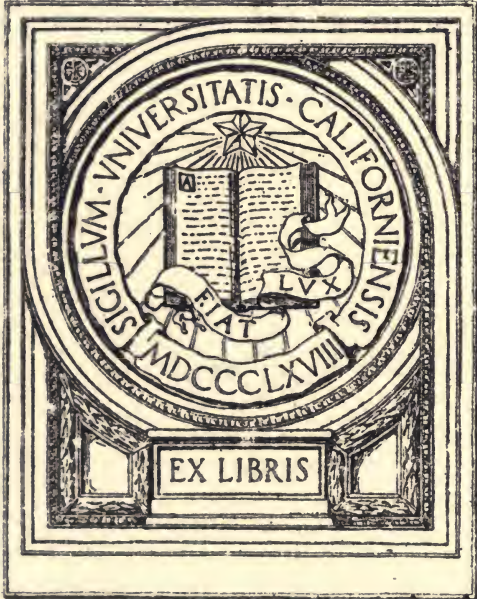
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PROCEEDINGS OF A CONFERENCE
ON TAXATION IN INDIANA

Held at Indiana University, Bloomington, Indiana
Thursday and Friday, February 5 and 6, 1914

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Indiana Tax conference.

Proceedings of a Conference on Taxation in Indiana

INDIANA UNIVERSITY
BLOOMINGTON, INDIANA

HELD AT INDIANA UNIVERSITY
BLOOMINGTON, INDIANA, THURSDAY AND FRIDAY
FEBRUARY 5 AND 6, 1914

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Proceedings of a Conference on Taxation in Indiana

THURSDAY, FEBRUARY 5—MORNING SESSION

[THE conference met in the auditorium at the Student Building of Indiana University, at 10:30 a. m., and was called to order by Dr. William Lowe Bryan, President of the University.]

DR. BRYAN: A notable lecturer once said here before our students that mankind had two chief interests, money and religion. Now this week we have both of these interests represented here, one of them in a conference of the religious workers in the state universities, and this one, this tax conference; and I make this remark in the outset because I wish to explain that it will be necessary for me to retire at once from this conference in order to introduce a speaker in the other one.

The Latin historian Livy relates that when the Gauls were about to capture and destroy Rome some four hundred years before Christ, the people decided to have the best of their young men go into the impregnable citadel with the remaining food supply so that they could survive and perpetuate the Roman name, while the rest of the people, commoners and senators, would remain and die by the hand of the Gauls. This, he says, was done. Commoner and Senator accepted death together so that a few of their blood might survive to maintain the Roman State.

Eight hundred years later the Roman Empire was invaded and overwhelmed by new breeds of barbarians from the North, the Goths and the Vandals. Two Roman historians of the latter period, Ammianus and Orosius, declare that when the Goths and Vandals invaded the Empire they were aided by large numbers of the Roman people who preferred the rule of the invaders to the burden of taxes which the Empire imposed upon them.

That is to say: Four hundred years before Christ there was a Roman patriotism of such force and quality that it had in it the potential conquest of the world; four hundred years after Christ that patriotism was dead,—killed by injustice. "Rome was killed," said a historical scholar to me, "by unjust taxation."

Benjamin Harrison, a thoroughgoing conservative upon all public questions, expressed in one of his last speeches the serious fear

that unfairly distributed taxation would do in our country exactly the same thing which Ammianus and Orosius say it did in the Roman Empire. He says: "I want to emphasize, if I can, the thought that the preservation of this principle of a proportionate contribution, according to the true value of what each man has, to the public expenditures, is essential to the maintenance of our free institutions, and of peace and good order in our communities." Again he says: "Mr. Lincoln's startling declaration that this country could not continue to exist half slave and half free may be paraphrased today by saying that this country can not continue to exist half taxed and half free." Again: "It is not only wrong, but it is unsafe, to make a show in our homes and on the street that is not made in the tax returns." Again: "The people will not consent that the present state of things shall be accepted as a permanent condition." Finally, with true Harrisonian balance of judgment, he says: "In the discussion of all of these social questions good temper is essential. Men must get together and use facts, not rhetoric. We do not want crusaders or a crusade."

Since President Harrison uttered these statesmanlike words in 1898, there has been a very great advance in the public conscience and in the public intelligence upon this great matter. Of that advance there is no better indication than this Conference, whose members come together for thoroughgoing consideration of public taxation and the profound social issues connected therewith.

I extend to you, gentlemen of the conference, a most hearty welcome. It is my privilege to introduce to you as chairman of this conference, a man who stands four square to all the winds that blow in Indiana, and who has for many years—Mr. John B. Stoll, of South Bend. (*Applause.*)

CHAIRMAN STOLL: Gentlemen, I feel assured that this assembly has a high appreciation of the words of welcome uttered by the distinguished head of this great institution of learning. The importance of this conference is so well and so aptly set forth in this address of welcome that it furnishes at once a clear indication of what ought to be the subject of discussion during the continuance of this conference.

I feel quite assured that no subject which the people of Indiana can consider and discuss surpasses in importance the question of equal and just taxation. We all know the difficulties encountered in framing a tax law for the state, a law that is likely to prove

satisfactory to the great body of the people of this great commonwealth. Therefore, it occurs to me, that one of the first subjects to be taken up is the cultivation of a sound, wholesome public sentiment, so that men of thought, men of knowledge, men of experience may be enlisted in the general movement for the preparation of a tax system that will correspond to the ideas and the thoughts expressed in the address of welcome and credited to one of Indiana's great statesmen, the late Benjamin Harrison.

It is to be earnestly hoped that all the difficulties that confront the people of this state in the securing of such an equitable and just tax system will receive due consideration, and that no time will be wasted in the discussion of impractical methods, that experience has taught to be such.

I do not believe that there are many men in this state, or any other state, that would care to undertake to prepare a tax law without carefully consulting similar enactments in all the other progressive commonwealths of this great country. One need not necessarily attempt to be particularly original in the preparation of a document of that kind. Experience must of necessity be taken into account, so that when a bill is framed to be submitted to the gracious consideration of the legislative power there may be just reason to believe it will be accepted by that body and framed into a living law.

Gentlemen of this convention, you have a highly important duty to perform. You come here from distant parts of the state, I hope and trust actuated by but one purpose, that of contributing something towards improving the faulty provisions of the tax system of the State of Indiana; so that every citizen thereof may feel assured that there is a prospect of a just and equitable provision in the near or distant future. (*Applause.*)

[The conference was organized by the choice of Mr. Fred Bates Johnson of Indianapolis, as secretary. It was also voted that all resolutions which might be offered should be referred to a committee of three for consideration and report. The committee, as subsequently appointed consisted of Hon. Dan M. Link, Mr. Eben H. Wolcott, and Dr. Oscar L. Pond.]

CHAIRMAN STOLL: Next in order will be a paper entitled, "Tax Administration from the Standpoint of the State Tax Commission," by Hon. Dan M. Link, State Tax Commissioner.

TAX ADMINISTRATION FROM THE STANDPOINT OF THE STATE TAX
COMMISSION

MR. LINK: Twenty-three years have elapsed since the codification of our tax laws by the legislature. This was an event that ushered in a new epoch in tax administration in this country. Spasmodic and experimental attempts had been made in other states to rectify and improve what had proved to be wholly ineffectual and largely impotent systems of tax administration. The germ of the idea of centralization of control of assessments was being slowly developed and some states had gone so far as to create special tax commissions and state boards of equalization. These bodies were loosely constructed, had limited powers, and there seemed to be a very inadequate conception of the field of usefulness which they might have been made to occupy. There was no coordination between these officers and the local assessors and no attempt was made to systematize the machinery of assessments from the ground up. California and New York had made a feeble and ineffectual effort to do something toward correcting the plainly apparent evils, but the people as a whole had given the matter very little attention and were hostile to and suspicious of the students of taxation who were trying to better conditions. In Indiana we had run the whole scale of abortive attempts to regulate and establish competent and adequate assessment machinery. Nothing in the whole range of legislation lends itself so readily to legislative experiment as taxation. No one is ever satisfied with anything we have and tax tinkering was the biennial amusement of the legislature. Some times the assessor was a township official, some times a county official; the county board of equalization was at one time appointive, at another time ex-officio, and there were at other times district boards of equalization, representatives from which composed the state board of equalization, and that was about the last word in inefficiency in tax administration. In 1872 there was created a small state board composed of certain state officials acting ex-officio with additional powers of a limited character in the assessment of certain corporations. Special tax commissions were created which studied and recommended with but little effect until the state finally reached that condition of penury where it was borrowing money to pay interest on borrowed money; chaos reigned in taxation and millions upon millions of dollars of property were not contributing a dollar to the support of the government.

This was the condition of affairs when the legislature of 1891 met, and it is reasonable to suppose that the pinch of necessity had something to do with the activity of the general assembly of that year in attempting to relieve the situation. Of the details and the history of that great work I will not attempt to speak for there are others living, at least one of whom is on this program, who were participants in that work and can speak with authority. The code which was adopted was not a remodeling or amendment of pre-existing laws, but was in some, and in its most important aspects, distinctly original. The idea of centralization in tax administration was actually born. The office of county assessor invested with supervisory powers was created along with a permanent state tax commission with extensive powers of assessment of corporations, and what was thought to be adequate power of control over local assessors and assessments. Hon. Timothy E. Howard, Hon. J. P. Dunn, and others still living, who were active participants in that struggle, can tell how the life of a great party was threatened because it had the courage to grapple with and work out to a sensible, and equitable solution, a problem which was baffling the legislatures of half the states of the union. By this law the great corporations owning public utilities were first made to bear their share of the tax burden of the state. The wise judgment of the proponents of this measure has been vindicated by the action of more than half of the states in creating permanent tax commissions, and by the fact that the continuance of our tax commission has long since ceased to be an issue in our politics.

Outside of the substitution of an additional commissioner for the governor and a few minor changes in the methods of assessment of corporations, our taxing law stands today practically as it was enacted in 1891. Other states which paid us the sincerest compliment by patterning after us have from time to time improved on the original until Indiana is no longer regarded as a leader in taxing methods, and students of taxation and special tax commissions do not flatter us by frequent visits of investigation as they once did, to learn the secret of just and equitable taxation.

The last quarter of a century has seen a world rebuilt economically and socially. It has witnessed a revolution in finance, the evolution of the corporation from a mere synonym for a railroad or a colossal mercantile or manufacturing institution to a business necessity embracing all sorts of enterprises large and small and the accepted form of conducting commercial affairs. Public utility

companies have been organized to conduct and control everything relating to public service. All the affairs of human life have become more complex, and the direct responsibility of the individual to the state and to his fellow man has become attenuated and obscured by the intervention of the corporate entity. Each year wealth has become less visible and tangible and the relative values of property more difficult of appraisal, and the ever elusive intangible property has found new ways of hiding and escaping its just share of the public tax burden.

The incidence of taxation is continually shifting, and the difficulty of adjusting taxes so that all property owners may be fairly taxed is ever increasing, and the condition is keenly accentuated by the gradual but steady increase in the tax rates due to the constant broadening of the functions of government and the expenditure by the state and municipalities of enormous sums to meet the demands of modern society for better roads, better health, better citizens, and the scientific treatment and humane care of unfortunates. What is our situation, therefore, in the light of our twenty-three years' experience with our present tax system, and with reference to the conditions in other states under other systems of taxation?

This question I will attempt to answer with reference to the limitations of our present constitution and from an entirely practical stand point.

Indiana has the general property tax, and the key to successful and equitable taxation under such system depends very largely, indeed almost entirely, on the degree of centralization in control of assessors by the tax commission. To this should be added the power in the tax commission as an original board of assessments to assess all public service corporations. The trend of tax legislation is toward centralization, and it is apparent that there can never be adequate supervision of assessments without control of assessors. In Indiana the tax commission is burdened with the responsibility of seeing "that all assessments of property in this state are made according to law", without arming the commission with any weapon which can be used on assessors who refuse to assess according to law. There are ninety-two county assessors and over eleven hundred township assessors with as many more deputies who are answerable to no one except the persons they assess. The tax commission has no power to remove any assessor, to order a reassessment, or otherwise question any act of an assessor except upon appeal. The elemental weakness of the system lies

in the fact that there can be no such thing as state wide equality in assessments unless there is some way to control the initial assessments, and that initial assessments cannot be controlled without control of the assessor who makes them. The isolated cases which come up on appeal or before a board of review are too insignificant in number to have any general equalizing effect. To be sure where there is a general tendency to over-assess or under-assess in a township as compared with other townships in the same county the board of review can correct it by making a horizontal increase or decrease in the entire township, and where there is a general inequality in the assessment of a county as compared with other counties the tax commission can make a horizontal increase or decrease on all the property in the county, but this remedy does not reach the individual inequities, nor does it in any way punish the incompetent or dishonest assessor. No amount of activity on the part of the tax commission can have any greater effect than to slightly ameliorate conditions. As long as local assessors are subject to local influences and regard themselves as agents of the taxing municipalities in which they are elected rather than as agents and representatives of the state it would be unnatural and unreasonable to expect all the assessors of the state to assess alike. Every county presents taxing problems which are peculiar to it. In the more opulent counties sufficient taxes can be raised for local purposes without distressing property owners with heavy assessments, and the corollary of this, which is never overlooked, is, that the amount of tax paid to the state will be less. In the poorer counties the stress of necessity requires that assessments be heavy in order to provide for local revenues and thus the poor are made poorer and penalized because of their misfortune. In large cities the assessment of property is a difficult task at best, and the escape of much of the intangible property is inevitable, yet the assessment of these great centers of wealth is made in a manner which would be ludicrous if it were not for the serious consequences which follow. For instance Mr. Berry, one of the most capable assessors in the state, in assessing Center township in Indianapolis, requires the services of one hundred and eighty deputies during the assessing season. They receive two dollars a day, and owing to the short period of employment and the small wages, he is obliged to make the best of such material as he can get. What sort of assessment would you expect under such conditions?

As I have heretofore suggested, the remedy for the present unsatisfactory condition lies in a centralization of authority over

assessors as well as assessments. I believe that the general dissatisfaction with the general property tax is due, in a large measure, to inefficient administration, although it has undoubtedly other elemental weaknesses. Other states which retain in whole or in part the general property tax are entirely discarding the old system of assessment. Wisconsin and Ohio each has abandoned the elective system and have appointive assessors. Ohio, notwithstanding its recent constitutional convention, retains the general property tax, and in October put into operation an appointive assessor system which seems destined to be the final effort to prove or disprove the utility of the general property tax. This experiment will be watched with great interest by all persons who are students of the science of taxation. The placing of the assessment of property upon a sensible, business basis, would in Indiana as it has in other states meet with opposition. It would be said to be an interference with local self government, and owners of intangible property and those who have sufficient influence to escape in whole or in part any sort of assessment would be opposed to it, but taxation is essentially a function of the state. The revenues of the state are derived almost entirely from the general property tax. The state collects and disburses a large part of the common school tax. The assessments of property are made by one class of officers at one time for all purposes, and upon these assessments all tax levies are spread and all revenues from taxation are derived. It is a work which requires good judgment, expert knowledge, and integrity, and one in which efficiency can be acquired only through experience. It should be a vocation and not merely an avocation. The under-assessment of property in Posey county affects the tax payer in Steuben county and in every other county in the state, so that a local assessor acts in more than a local capacity; he is the agent and representative of all the tax payers in the state, and all are affected by his acts. I will not attempt to discuss in detail the method of appointment and supervision of local assessors because that subject will be presented by another on the program who will speak with the authority not only of observation but of actual experience.

I want to briefly tell of the efforts of the tax commission to secure equitable assessments and what results are being achieved. The taxing season is opened each year by a state meeting of the county assessors, which is usually held the first or second week in January. During the three day meeting the general work of the year is discussed and committees on different classes of property

arrange for uniformity in assessment. These committees are appointed by the tax commission and the members are grouped with reference to the predominating character of property in their respective counties. After this meeting and before the assessing season begins district conferences are held at which county assessors, auditors, treasurers, and township assessors of a group of six or more counties are gathered together and the assessments of the group of counties are compared more in detail. At these meetings counties which are under-assessing are likely to be complained of by their neighbors. There is a general discussion of values of different classes of property and exchange of information. During the assessing season each county in the state is visited by a member of the commission and a conference is held with the township assessors and their deputies. Tax lists are examined and a comparison of values made with returns from other counties. Innumerable questions relating to assessments come up at these meetings and the local assessors are inspired to do better work. The fact that their work is being scrutinized by the tax commission also has a beneficial effect. Each assessor is asked to keep a memorandum of the assessments of each species of property and to make return of the same and the latter reports these valuations to the tax commission and these reports are compared with those from other counties, with the state statistician's returns, and with the latest Federal census bulletins. These reports are made by the township and county assessors as a favor to the tax commission; they are entirely voluntary, and some counties refuse to make returns at all, or the returns are so apparently fictitious as to be of no value. It gives me pleasure to say that a great majority of the county and township assessors are efficient and honest officers, but the weak point in the system is the inability of the commission to deal with the minority who are incapable, or inefficient, or dishonest. In counties where the commission is cognizant of flagrant violations of the law it has no power to remove assessors, or order a re-assessment, or to in any way change the assessment except by making a uniform change in the total assessed valuation of the county, thus penalizing the honest tax payer in order to reach the dishonest tax official and the beneficiaries of his under-assessments. At the last session of the State Board of Tax Commissioners the assessments of twenty-five counties were raised. This action was taken as a last resort and after it was demonstrated that in no other way could equality of assessments as between counties be enforced.

The experience of the tax commission has proven another thing, and that is, that selfishness is not alone a quality of the individual, but affects communities as well. In the assessment of property the taxpayers and assessors of one township will jockey for favorable assessments as against the other townships of the same county, and that counties take great care in seeing that their assessments are no higher, and if anything a little lower, than the assessments of their neighbors. The tax going to the state is especially in disfavor, and is looked upon as "paying tribute to Caesar", and any plan by which a part of this burden can be shifted is looked upon as justifiable and ethical.

Pride in local industries and institutions is another obstacle to fair assessments. The intense rivalry among cities and towns for industrial plants encourages tacit agreements that assessments for taxation shall be placed at a minimum. The fact that assessors are elected by the people of the community gives these institutions a weapon which they are not slow to use, and enables them to wield an influence which cannot be overcome by any outside agency of the government like the tax commission. One county of this state is practically a reclaimed wilderness of sand dunes and jack pines. It was taken in its primeval condition and turned into one of the industrial centers of the world. Seventy-five per cent of its population depends, directly or indirectly, on these great manufacturing industries for their subsistence. The amount of capital invested is so colossal that only a tithe need be assessed in order to furnish the local taxing municipalities with sufficient revenues. Is it to be wondered at that there should be under-assessments in such case?

These are a few of the perplexing problems with which the tax commission is obliged to contend, and for which there seems to be no adequate solution except through further legislation. At present we are trying to ameliorate this condition by giving as much attention as possible to individual assessors and assessments through personal visits and through co-operation with county assessors. These efforts have not been entirely devoid of results. The present township assessors have been in office six years and the county assessors four years and a sufficient length of time has elapsed for them to become more or less familiar with tax conditions. All of them go out of office this fall, however, and the important task of assessing real estate in 1915 will have to be taken up with a new and inexperienced set of assessors. All the efficiency gained by the present assessors during their terms of office will be wholly lost and the work of education will have to be begun all

over again. Upon what grounds of political theory or expediency are we justified?

A change in our taxing system must come. If we have a constitutional convention the opportunity will present itself for an advanced and modern system; if we do not have a constitutional convention there should be legislation which would, to some extent at least, remedy some of the existing evils. The time has come for the people of Indiana to become acquainted with one of the functions of government which vitally affects every citizen, and the principles of which have been given less attention in recent years than any other department of government. This conference will give publicity to this question and encourage public discussion, and once the public becomes interested we may reasonably expect that public sentiment and opinion will be given expression through legislative or constitutional changes. (*Applause.*)

CHAIRMAN STOLL: I desire to avail myself of the opportunity to say that if the papers following this one are of equal interest and as much excellence as the one we have just listened to, every individual assembled here will be amply repaid for the trouble and expense of coming. The next paper, "Defects of the Present System and Needed Changes in the Taxation of Money and Credits," by Hon. Fred A. Sims, former State Tax Commissioner of Indiana, is now in order.

DEFECTS OF THE PRESENT SYSTEM AND NEEDED CHANGES IN THE TAXATION OF MONEY AND CREDITS

MR. FRED A. SIMS: Mr. President, ladies and gentlemen—At the November election of the present year there will be submitted to the voters of Indiana the question as to whether or not they favor a constitutional convention. "If a majority of the electors voting at such election shall be in favor of calling a constitutional convention, then a constitutional convention shall be held in the State of Indiana under the provisions of this Act" (*Acts, 1913*, p. 814). Section 13 of that act provides for the organization of such convention in the city of Indianapolis on the first Monday of May, 1915, in the event the proposition carries. The expression of public opinion both before and at the time of the passage of this act, and the form of the ballot provided therein, seemingly indicates a strong probability of a result favorable to the holding of such a Convention. It is therefore likely that we are within approximately fifteen months of this eventuality.

At the session of the Legislature referred to, Senator George Wood, representing Hamilton and Tipton Counties, introduced a bill which had for its purpose some changes in the present tax law and to incorporate therein methods designed for the relief of certain kinds of property coming under the general classification of "moneys and credits". This bill was withdrawn under the opinion of the Attorney General that it was in contravention of certain provisions of our present Constitution. Because of these constitutional provisions it is equally impossible to attempt a general or even a considerable revision of our present tax laws along lines now engaging the best thought upon this subject.

No more important consideration will occupy the attention of such a convention than that of taxation, for upon its action must rest the legislation to follow—a situation which gives to your conference a special and serious interest to every taxpayer in Indiana. It should be earnestly desired that from this meeting will come a careful and comprehensive study of this great question to the end that our State will be given a taxing system as nearly perfect in its working as is possible to construct and place her in the forefront of progress in this important problem of government.

I am deeply sensible of the compliment you have paid me by your invitation to address you upon this occasion and I am keenly aware of my limitations in discussing the subject of "Defects of the Present System and Needed Changes in the Taxation of Money and Credits". If I can contribute a thought or a suggestion of value in the consideration of this question I shall deem myself fortunate. This is a subject too broad to fully discuss in the scope of this paper and I shall not attempt to do more than speak generally. It will be the purpose to address these remarks to money on hand or on deposit and to the various forms of money loaned rather than to go into the field of shares of stock and credits of similar character.

In speaking of the defects of our present system that relate particularly to this subject, two important features may be mentioned—its inequities and its impracticabilities, to which a third might be added—its questionable policy.

These weaknesses are not confined solely to the taxation of the class we are especially discussing, but in varying degrees enter and affect other kinds of property. Nor do they bear an equal relation to the various divisions of money and credit. With an allowance of some exemption, lands are taxed and so are the mortgages thereon; yet shares of stock in a domestic corporation are not taxable

to the owner upon the theory that the corporation has already paid the tax upon the property represented and that it is sought to tax only the net wealth. This appears to be inequitable as between two kinds of property which come within our classification. Many believe the present law in relation to the assessment of money in bank to be impracticable yet, for the same reason at least, such criticism cannot be made as to mortgages of record. And there arises an entirely different issue in considering the policy of the taxation of mortgages and credits on land and in the taxation of corporate stocks.

In pointing out the inequities affecting our subject perhaps the most apparent is that, taken as a class, it is by far the highest assessed. Under the theory of the general property tax, upon which our structure stands, all property is to contribute an equal share. In practice, mortgages, money in bank or on hand, and generally all money loaned in whatever form, where it has been placed upon the tax duplicate, has been assessed at its full face value. With rare exceptions no other class of property approaches this condition.

Compare, if you will, the assessed value of the business property in any of our cities with the assessed value of the mortgage thereon, and also with the value fixed by the appraiser who passed upon the property at the time the loan was granted. Find what such property has recently sold for and compare the value assessed against it on the tax duplicate. Carry this further and look along the same lines of investigation as to farm property in any of the improved sections of Indiana.

Lay side by side the assessment of the mortgage loan, the note of hand, the money on hand or in bank with the assessment against the stock of merchandise. The more carefully you investigate the more apparent will be the discrepancy.

Look into the assessment of credits as compared with the assessment of personal property for which there is a fixed market value.

Investigate the difference in the assessment of credits with household goods, farm implements and other varieties of tangible personal property.

Look at the valuation of railroad and kindred property for taxation and compare with these items of credit.

And see, too, how other corporations are taxed in comparison. Even our banks, that complain loudly, have a very liberal discount upon their actual value.

Any investigation along these lines suggested, or others, which has for its purpose the ascertaining of the facts as to the distribution of the burden of taxation upon the various kinds of property must lead to the conclusion that debt secured by mortgage, notes of hand and other forms of credits for money loaned, money on hand or on deposit, when placed upon the duplicate, are assessed inequitably higher than all other general classes of property.

Recently, in parts of the State, some discount has been given for what is known as equalization, and this practice seems to be growing. But even with this relief the assessment is very disproportionate.

Will you pardon a digression to speak a word in behalf of the home owner?

It has been the observation of your speaker that this is a subdivision of landed property which bears far more than its just share of the tax burden. That this is especially true of the more modest homes—say up to the value of \$4,000.00. Because of the growing needs of the city and town governments these assessments have been gradually forced up in order to produce the revenue necessary without an increase in the rate sufficient to meet the necessities existing at the time, until a level has been reached that is wholly unfair in general taxation to a class of our citizens that it is the manifest policy and duty of the country to conserve and encourage.

In all that has been or may be said herein concerning the assessment of property or the execution of the taxing laws of the State no reflection is intended upon the officials who are charged with this difficult task from the township assessor to the State Tax Commissioner. Having personally experienced the perplexing problems that are the constant companions of these officials, I feel that they should be encouraged and commended. The fact that conditions herein referred to are general and not confined to a few localities would seem a convincing proof of the weakness of the system rather than the fault of execution.

Another inequity is that the very large part of the property classed as money on hand or in bank, commercial paper, notes secured and unsecured, and all classes of secured and unsecured credits, except that held by residents of Indiana, escapes taxation entirely. As an illustration a debt secured by mortgage held by a resident of this State is placed upon the duplicate; if, however, the mortgagee resides out of the State it is not assessed.

One of the features of our present system that seems "impractical" in execution is the assessment of money in bank.

At this time there is on deposit in the various banking institutions of Indiana approximately \$300,000,000.00. Practically the same situation existed on the first day of March, 1913. The total assessment of all kinds of personal property in the State on that date was \$487,298,675.00. That a very large portion of the amount on deposit escaped the assessor at that time is obvious. It is a matter of general information that little of the money deposited in banks ever gets upon the tax duplicate. A few years ago there was on deposit in the different banks of one of our smaller cities an amount equal to one half of the total assessed value of the property of all kinds—real and personal—within its corporate limits.

That money in bank cannot be exposed to taxation, under our present system, without the most serious commercial disturbances to the locality where the attempt is made, is true. One of the chief functions of a bank is to absorb the idle money of the community into what is known as deposits and place it in activity by way of loans. The very large percentage of the loans of any banking institution is made out of the money of its depositors. So these two accounts are inter-dependent and any serious shrinkage of the deposit account must be followed by a similar curtailment of the loans. Therefore the banker, of necessity, when called upon to pay an exceptionally large or major portion of his deposits must have recourse to calling in his loans or close his doors—the disastrous effects of either course on the community is not necessary to emphasize. Should the assessor, or other taxing officer, inspect the books of the bank and, as in the case of public record, take therefrom the different amounts deposited in the names of those liable to assessment, the effect would be disastrous to the deposits of the bank. However disagreeable this fact may be it is, nevertheless, true and must be and is recognized in the practical workings of our taxing system. Very recently, in one of the counties of the State, an attempt was made of this kind. The immediately threatened result was so alarming that the investigation was suspended at once. A uniform and successful effort by taxing officials along these lines throughout Indiana would close the doors of our banks.

Referring to the unfairness of the practical exemption of the non-resident money loaner, already spoken of, it may be observed

that this has resulted in the removal of citizenship of a considerable number of former residents having large amounts of money to loan, in the investment by others in non-taxable securities, and by others still in the placing of their money outside the State, and has diverted much from farm and commercial loans here. It has been responsible, too, for the withdrawal of considerable amounts formerly loaned by way of mortgages and otherwise commercially. The recent advance in the rate on mortgage loans, and particularly the low net rate in non-taxable securities, may be, at least, partially accounted for by this.

Another feature of the operation of our laws upon this subject which should be considered in relation to the practical working thereof both as to the portion of the income value of this class of credits taken for taxes as well as to the success in exposing it for taxation is the amount of net return, after deducting taxes, from moneys bearing interest.

While the tendency of the tax rate is to grow everywhere yet its most rapid advance is in the city. Both because of economic and social reasons the majority of money to be loaned is located and subject to tax therein. Hence, in the consideration of this phase of the subject, it is fair to speak of the returns to the holder of the loan with the city rate as the basis. In many of the cities of this State the rate exceeds two and one-half percent and, in some instances as much as four and five percent. This is, of course the total rate including State, county, township and city. It is not uncommon to find the rate considerably in excess of three percent. Assuming that the normal rate of interest is six percent. it is at once apparent that the net returns to the holder of the paper are unattractive in view of what they would be in other fields.

Largely for this reason such a considerable portion of this property does not find its way to the tax duplicate. And it would seem manifest that if it was assessed either the rate of interest must advance or money to loan in the hands of individual citizens of Indiana would disappear from the State. This would be true of all forms whether notes, bonds or other evidences of debt. And, it may be observed, that in practice, money on hand or on deposit and money loaned, so far as Indiana capital is concerned, would be seriously affected, which would find its reflective influence in business of every character.

It would seem obvious that the policy contemplated by our present system followed literally would be subversive of the best

interests commercially of both the farmer and the business man. And, in view of the policy of other States of rather recent adoption this phase of this subject merits serious consideration.

One of the subjects that is now meeting consideration as a problem of government is the question of interest rates, especially as to farm loans. Next to taxes the burden of interest has been fundamentally a load upon economic progress. A distinguished former Governor of the State of New York once said that the commercial condition of the country could be accurately ascertained by the prevailing rates of interest. It is accepted that a low rate of interest makes for better times and substantial progress. The development of the Credit Foncier in France and institutions having a like purpose elsewhere in Europe has attracted wide attention as providing a lower rate for farmers. President Wilson is now engaged in the consideration of a measure for a similar relief in this Country. As a result of Congressional interest the distinguished Congressman from the Fifth Congressional district, with others, has given much time and effort in the investigation and study of this subject. In view of this situation, in view of the taxing policy of many States, in view of the much lower rates of interest prevailing upon non-taxable credits, in view of the discrimination against the Indiana loaner, and in view of the limited proportion of this property upon the tax duplicate this phase of our taxing law must be given some consideration soon.

And, in this connection, it must be borne in mind that not the least unfairness in the working of our present system is the fact that such a large amount of this property is not taxed. Under the theory of the general property tax it should, in justice to other classes, bear its fair share of the support of government. That other property is thus unduly burdened is manifest and while this seems to come, to a considerable extent, from causes mentioned, this does not constitute a sufficient reason why such exemption should exist. It should be the purpose to correct the inequity from both standpoints.

The burden of taxation has been unpopular in all ages—the complaints loud and numerous. They have taken the form of protest from the mild complaint of the citizens to the disasters of war. The hatred of the Roman publican and the "Boston Tea Party" are notable examples of the past. The pages of history of all ages contain the records of the displeasures of the people.

That taxes have been increasing during the past few years, very rapidly, is well known and that there will be further and heavy

additions to this is beyond the possibility of dispute. We cannot close our eyes to the increasing problem of the distribution of the burden of raising the revenue necessary for the support of government.

In a recent utterance Mr. James J. Hill said: "In a study of credits made some time ago, I showed that the net ordinary expenses of the United States Government had increased 1.4 per cent. between 1870 and 1890; and 121.4 per cent. between 1890 and 1908; while between 1890 and 1909 the expenditures of the thirty states from which reliable reports could be obtained had increased 201.6 per cent. Most of our cities are mad spenders, intent only on securing an increased margin for bond issues by raising the assessed valuation."

This statement of Mr. Hill was made in reference to the matter of the issuance and value of bonds, but it reflects directly the necessity of providing increased taxes to meet these expenditures. And it, incidentally, discloses another reason which has been coupled with the demand for a greater tax revenue in bringing about such a large advance in cities in the assessed value of property—particularly real estate.

And it may be stated in passing that the popular impression that the increase of the assessment will proportionately lower the tax rate is a fallacy in practice. The demands for public expenditures are so pressing and urgent that the permanent—even passing—decrease in the levy is not secured. All administrative officers, particularly those of state and city governments, are constantly beset and perplexed in meeting the expenses of just and equitable measures urgently demanded. They are continually between the fires of the requirements of the taxpayer for public improvements, new departments, extension of existing service, and the increasing necessities of our complex social and economic condition and confronted by the same taxpayer with a demand for lower taxes. May it be added that our people have been too busy to give serious attention to these problems except to indulge in a more or less violent protest at the time of paying their taxes or when going over their business affairs.

Perhaps the rapid increase in the expense of the Federal Government, as well as the disposition of our people to give little heed, may be illustrated by recalling that only a few years ago the country was startled by the announcement of the newspapers of what was then termed "The Billion Dollar Congress"; this amount has been exceeded since but we have come to think little of it.

That the demands upon the government at Washington are rapidly increasing is beyond question and evidenced by the constant effort to provide revenue to avoid a deficit.

The situation of our National Government is relatively reflected in the state and every administration has the same experience. Each session of the Legislature is beset with demands that must occasion the raising of additional revenue if relief is granted. The necessarily increasing demand upon the departments and institutions of Indiana, alone, form a serious problem in taxation.

The requirements of our cities are even proportionately greater both at present and in prospect. No branch of our government gives more pause or produces greater anxiety for the future. Many grave questions confront this department and nowhere are there more pressing and insistent problems to solve.

So, too, do our county, town, and township subdivisions meet these same questions in no small measure.

The nation-wide agitation of the "good roads" question, the urgency of the public demand for their construction, and their economic value is of common information. The carrying of this into effect, and few will doubt its probability, will require millions of money which must be paid out of revenues to be raised and provided by the nation, the state and by all the political subdivisions.

The constantly increasing need for the extension of the university, the high school and the common school has been and will continue to be a large and growing demand. That the progress of our country as a whole, as well as its smaller units, is largely dependent upon our educational advantages will admit of no argument. That our present system must be constantly broadened to meet the requirements of a rapidly increasing population and the demands for individual equipment is not open to question. The aid given by the state to your splendid institution has been largely increased during the past few years. Is there a thinking taxpayer in Indiana who would have limited the work of your university?

The necessity for the proper supervision of the public health is fundamental. The recent successful advance in that direction means that much additional must be accomplished. No department of government is more necessary to the welfare of the citizen. The passing insistence that more attention be given to this

branch of the public service confronts us from the Federal Government to the township.

Particular attention might be directed to many other phases of this onward movement. The force behind the demand for public improvements of all kinds and the enlarging of all public service is so insistent and irresistible that it must be heeded. The rapidly increasing growth of population and wealth is constantly producing new requirements; the complexity of the problems arising from our social and economic situation seeking more from the administration of government. When this country was new and the population sparse, conditions were simple and taxes low. As people advanced and became more numerous the levy increased correspondingly. That the advance in the rate and the amount of taxation was the result of this principle seems obvious. Can it be doubted, therefore, that we may look with certainty for further increase?

In the attempt to limit the advance of taxes changes will be made especially in the cost of administration. Much of our present system is cumbersome and expensive. As expressed in the business world "cutting down the overhead" will be a necessity. The consolidation of departments and the reformation of methods will be accomplished with the consequent elimination of salary and other expenses. These are business methods which must find recognition in our governmental affairs. All this will be reformed in the near future; and while it will aid yet retrenchment cannot keep pace with the irresistible trend toward progress.

Credit is the life blood of commerce and necessary to the development of wealth. Any limitation thereof is accompanied by a result more or less disastrous. The effect of the curtailment of the credit of the individual limits his sphere and its withdrawal brings ruin. In its larger application it works similarly. The chief apparent cause of our panics is the withdrawal of credit, whatever underlying reason occasioned it. The much talked of "loss of confidence" is but another expression for loss of credit.

So all the inequitable burdens placed upon forms of credit will certainly be reflected, in greater or less measure, along these lines.

The attempt has been made to show herein the unequal taxation laid upon this class of property as well as its growing inability to meet it, and to call the attention of the borrowing classes to the advantage of relief in this direction. That such a benefit would necessarily follow is demonstrated by the present existing rates

on mortgage and other security and that on non-taxables. A good non-taxable Indiana bond is selling now to net the holder about 3.80 per cent. while the farmer is paying for money loaned on mortgage (including commission) about 6 per cent. for standard loans. Because of excessive tax another security is appearing prominently in the market—preferred stock. This has been perfected until former objections have been largely eliminated, and because, under our statute, it is not taxable in the hands of the holder, if issued by an Indiana company, it is now finding ready sale. In this connection will you pardon a further illustration showing both the excessive tax levy as well as the practical operation of the weight of assessment on credits?

A number of years ago a German farmer settled upon a tract of land near my native city, and by dint of thrift and industry came to own the farm free of incumbrance. After giving most of a lifetime to this occupation he desired to spend his remaining days in the easier life of retirement in the city. He sold the farm taking a mortgage for most of the purchase money and moved to town confidently believing that his modest requirements would be fully provided by the interest arising from the money derived from the sale of his land. In due season he reported his loans to the assessor. Then came the tax gatherer and with him departed the dream of ease and comfort in his old days, for our friend discovered that in place of the income he so confidently relied upon he actually had left less than forty cents out of each dollar—or instead of having \$600 he had but \$280. Whereas he had been paying approximately \$70 in taxes on the farm they suddenly arose in the city upon the same capital to \$435 or more than six times as much.

A friend recently told me of a gentleman who, a number of years ago, lived in a certain city in Indiana. He possessed \$5,000. His needs were simple and he lived on the income derived from loaning this sum which netted him \$325 per annum after deducting taxes. Today the same sum under the present tax rate in that city and loaned at the same rate would bring but \$208 net. Or it would require \$8,000 now—or 60 per cent. more to produce the original income, the tax rate having advanced from \$1.50 to \$3.84. If we were to further take into account the reduction of the interest rate from 8 per cent. to 6 per cent. it would earn but \$108 now; or it would take more than \$15,000 to reproduce the initial net return.

If we are to expect a further material advance in the rate of taxation does it not follow that if the present method of the assessment of this class of property is adhered to and enforced it will soon amount to confiscation of its income value? That this advance to that figure will soon be realized there is little doubt for there are already instances in Indiana where the total of state, county, city and township tax approximates 5 per cent. It will inevitably mean one of three things:—That it must seek other lines of investment; that it must leave the state; or that it must be sequestered from the taxing authorities.

The action of other states must, too, force upon us some consideration as to changes in our present system. Many are awakening to the situation and in a number definite steps have already been taken. The effect must follow that if we do not offer similar advantages Indiana capital, seeking this kind of investment, will flow into those states where conditions are favorable.

In the consideration of “needed changes” in our taxing laws relating to the branch discussed in this paper it manifestly involves too large a field to be covered at this time. Nor will it be the purpose to point out specifically a particular method, but rather to suggest, in a general way, some principles of taxation, what some other states have done, and, very briefly, some tendencies abroad.

Professor Seligman in his valuable *Essays on Taxation*, says: “To arrange a system of taxation which shall, on the whole, correspond as closely as possible to the net revenues of the individuals and social classes, and which shall take into account the variations in tax paying ability, has become the demand of modern civilization. But unless this system is in harmony with the external structure and the internal conditions of modern economic life, it is foredoomed to failure.”

Professor Bullock, of Harvard University, lays down this rule: “The methods and rates of taxation must be adjusted to the requirements of the various classes of taxable objects; no rate upon any class should be higher than can be collected with reasonable certainty; no rate should be so high as to drive out of a community persons, or capital, or industries, and any rate that exceeds what a class of taxable objects will bear must result in loss of revenue, injury to industry, and such general demoralization as accompanies widespread evasion of law.”

While there exists a number of forms of special tax, there may be said to be three theories of general taxation, namely: the General Property Tax; the Income Tax; and the Single Tax.

The underlying principle of the general property tax is that all kinds of property must be equally and directly subjected to the raising of the revenue necessary for the maintenance of the government. While it is usually conceded that if properly applied and administered it is a fair and just system yet it has been frequently attacked as not suitable as a taxing basis for our modern conditions. Like the theory of our land titles it found its origin in the Feudal System.

The Income Tax, as its name implies, contemplates the assessment of individuals upon their ability to pay as the standard of obligation to the state and is more modern.

Professor Seligman points out that "every civilized community professes to tax the individual according to his ability to pay, which may, indeed, be measured by his property, or by any other standard." Then asks "But is property the true test of ability?" He and others who lean to the income tax theory point to this method as the fairer and the more just distribution of the expense of government as a basis for a taxing system, calling attention to the productive value of different kinds of property, the variance in the income of the same property in the hands of different individuals, the duty to the State of him who earns a salary and similar illustrations.

The general theory of the Single Tax is a tax exclusively upon land. It is urged upon the ground that land is naturally and of right should be the property of the whole people and that, therefore, there can be no individual property in land; that its increase in value is mainly the result of social conditions and not due to individual effort; that this value is the "unearned increment" that is due to society. Henry George, who was one of its most distinguished advocates, adroitly applied it to the solution of the land troubles in Ireland. It is, in a measure, in operation in parts of the Dominion of Canada. It is attractive in theory but it would seem impossible to practice in this country.

It is not the purpose of this paper to discuss either of the foregoing, but simply to suggest them in view of what has been done in this country and abroad.

The various states, with the exception of Wisconsin, hold to the general property tax idea as a basis. Wisconsin has rather recently adopted the income tax theory supplemented with special and direct taxation. However, in practice and by law other states have some elements of the income principle. For instance in

Indiana the method of the valuation of railroad property is principally based upon the value produced by a capitalization of their income account. This is the usual reason for the variation of these assessments from year to year. And this is used too, in the assessment of other kinds of property in this state.

Wisconsin is the first and to this time the only state in the Union which has successfully adopted the general principle of the Income Tax into its system, and while there are other specific taxes direct in their nature, yet, so far as stocks (except bank stocks) bonds, notes and other credits are concerned, they bear no direct assessment but the income derived from these is taxed against the holder of the paper. Under this law many of the difficulties existing here relating to the taxing of this property are obviated. In some of the other states, such as North and South Carolina, Oklahoma, and Tennessee elements of the income tax principle enter, to some extent, into their provisions.

In the state of Rhode Island, by an act passed in 1912, very radical changes were made. This is particularly true of the class of property under discussion. By the provisions of their new statute all intangible property is taxed at forty cents upon each \$100.00 of valuation. In addition all savings deposits are relieved from local tax. The report of the Board of State Tax Commissioners for 1913, after referring to the fact that many of the assessments were made within a very short time after the law went into effect, adds: "From the standpoint of revenue received for both local and state purposes, the operation of these provisions of law has apparently resulted in a very substantial increase over the receipts of previous years. The flat rate of forty cents on each \$100.00 of valuation has resulted in a more equitable distribution of the tax imposed on the tangibles and has added no new difficulties to local assessment. It is the opinion of the Board of Tax Commissioners that this provision of the law has adequately fulfilled its purpose."

The theory of taxing credits at a low fixed rate has been followed in part by Iowa and Minnesota.

The state of Ohio, by recent enactment, is trying a very interesting experiment. All property is assessed there at its full value, but the amount of the total levy for all purposes, state and local, is limited to one percent. This is a departure and the working and success of this law is being carefully watched and is attracting wide attention.

The Secured Debt Law of the state of New York is frequently referred to. It is provided that any bond, note, or debt secured by mortgage on real estate recorded anywhere except in New York is exempt upon paying a stamp tax of one half of one percent. Debts secured by mortgage upon real estate situated in New York are exempt if made or recorded after July 1st, 1906, or if mortgage tax of one half of one percent. on the amount remaining due since July 1st, 1906, has been paid. There is a special recording tax against mortgages since 1906 of fifty cents upon each \$100.00 or major fraction thereof.

Time will not permit the pointing out of the different provisions of the several states but they may be summed up from data secured from the recent publication "Tax Exempt and Taxable Investment Securities" by Wrightington and Rollins.

Building and Loan Association shares and shares in co-operative banks are taxed at a low fixed rate in Rhode Island. In Maryland, Nevada, Utah and Vermont they are exempt if the property of the association is in the state; and exempt in California, Connecticut, Delaware, District of Columbia, Georgia, Idaho, Maine, Massachusetts, Minnesota, New Hampshire, New Jersey, New York, North Carolina, Oklahoma, South Carolina, Tennessee, Virginia, Washington and Wyoming.

Bonds of the United States are exempt in all states and bonds of state, county, and city governments are rapidly becoming so throughout the country. In some states these securities of other states are also exempt.

Bonds of private corporations are exempt in Delaware, District of Columbia and Washington; taxed at a low fixed rate in Iowa, Maryland, Pennsylvania, and Rhode Island; exempt on payment of a license tax in Minnesota and New York. Certain kinds are not liable for taxes in California, Colorado, Massachusetts, New Jersey, Rhode Island and Wyoming.

Commercial paper is taxed at a low fixed rate in Iowa, Minnesota, and Rhode Island, and exempt in Delaware, District of Columbia and Washington. Certain notes are exempt in New Jersey and Pennsylvania.

Notes secured by mortgage on real estate located in the state levying the tax are exempt in California, Colorado, Connecticut, Delaware, District of Columbia, Idaho, Louisiana, Maine, Massachusetts, New Jersey, Utah, Washington and Wyoming. They bear a low fixed rate in Iowa and Rhode Island; are liable only for

a license or special tax in Alabama, Michigan, Minnesota, and New York. In New Hampshire when secured by local real estate and bearing a rate of interest not greater than 5 per cent. they are exempt.

Notes secured by mortgage on real estate located out of the state levying the tax are exempt in California, Delaware, District of Columbia, Idaho, Utah and Washington. They bear a low rate in Iowa, Maryland, Minnesota and Rhode Island, and are exempt on payment of a license fee in New York.

Deposits in banks located in the state levying the tax are exempt in Alabama, Delaware, District of Columbia, Maryland, Washington and Wisconsin. Taxable at a low fixed rate in Iowa, Minnesota, and Rhode Island. In Pennsylvania all bank deposits bearing interest are taxable—those subject to check are exempt. In California, New York and New Jersey savings bank deposits are exempt. In Connecticut deposits in savings banks are also exempt, together with some further exemption on deposits in state banks and trust companies. The situation in Massachusetts is quite similar to Connecticut.

Deposits in banks located outside the state levying the tax are exempt in Alabama, Delaware, District of Columbia, Maryland, Washington and Wisconsin and taxed at a low fixed rate in Iowa, Minnesota, and Rhode Island.

From the foregoing summary it is evident that many states are recognizing the necessities of change in the older methods and are endeavoring to find a solution to this vexing problem. It also clearly shows that while Wisconsin has made a departure the tendency in the United States leans very strongly to the general property tax.

In many instances abroad, however, the reverse seems to be the rule. And in considering very briefly what has been done in some other countries the great difference in their form of government must be given consideration.

England was the first important country to introduce the income tax. While she still retains a direct tax on lands and forms of personal property, the basic principle is the income. There, also, the inheritance tax has a very wide scope and a large part of her revenue comes from this source. She also has other special taxes and has a form of progression in taxation largely applied to the tax on estates, the rate increasing with the value of the property. This principle of progression in taxation has been adopted by the United States government in the income tax recently passed.

In New Zealand the general property tax has been largely abandoned and the income tax substituted therefor. That government had also adopted a system of graduation. While a tax on land is still maintained improvements upon land are exempted.

The taxing system of the Netherlands, while greatly reformed, is quite complicated still. Very decided changes have been made and while direct taxes have not altogether been abandoned they have been reduced and the operation of the income principle greatly enlarged. Their direct taxes are both in the form of land tax and excise duties. There, also, is some application of the idea of graduation in taxation.

The history of the progress of taxation in Prussia has a special interest to this country as it is more nearly related to our situation from the similar elements in the forms of government in that their Confederation creates some of the same problems as those existing between our Federal and State governments. There they have fairly succeeded in bringing into successful operation the segregation of sources of revenue between local and state taxes, and, in so doing, they have retained the direct property tax as well as the income theory—the direct tax being principally exercised locally while the income tax is imposed by the general government.

The investigation of what has been accomplished in taxation in all its various forms in these and other countries is very interesting and instructive but time will not permit of further mention. They are alluded to in this paper in a very superficial way only for the purpose of indicating the seeming trend elsewhere of remedies for the tax burden. A complete investigation of the tax laws abroad, as well as in the United States, is necessary before an accurate understanding of just what has been done can be had, and it would be a great advantage in framing suggestions for changes in our present laws relating not only to the subject in hand but to the relief of all classes of tax duties to include as comprehensive a field as possible. No problem of government is more complex or difficult nor has any occasioned the infliction of more wrongs.

It is not the purpose of this discussion to lend the impression, nor is it contended herein, that the class which has been the particular subject of this paper is the only property demanding relief, or that it alone bears a disproportionate share of the burden of taxation. Inequities exist in the relation of other kinds as well. It has, rather, been the effort to confine this paper as closely as possible to the presentation of the particular status of money and

credits, freely admitting that when this is relieved of necessity general adjustment should be made in the relation of other classes of property and duties in a new and better taxing system. Its readjustment, in many particulars, is of great importance from the standpoint of commercial, economic, and governmental necessities. That our present system is inefficient in many ways and does not meet the requirements of the present time seems true; that some consideration must be given soon appears obvious from the force of changes going on about us. That the first step in the accomplishment of material change and advancement must be made in our constitution is clear and that this opportunity is near at hand is very probable.

If your conference will mark the beginning of organized and intelligent study of this great and vitally important subject it will become the means of securing to our people a fundamental step in their material advancement—a service second in importance to none. And it is to be sincerely hoped that amid your numerous other duties in the education of this great state that you may find time to give to this purpose the force and energy necessary for the full accomplishment of this important object.

And in conclusion it must be admitted that a considerable portion of the class of money and credits which have been especially discussed herein now escape taxation, but if it is to “render unto Caesar the things which are Caesar’s” a more practical and equitable system must be devised. (*Applause.*)

DISCUSSION

CHAIRMAN STOLL: Gentlemen, after listening attentively to the admirable address of Mr. Sims I feel quite assured that you will be delighted to hear from that other student, Mr. J. P. Dunn of Indianapolis.

MR. DUNN: Mr. President, gentlemen and ladies—When I accepted this invitation I had intended at first to make an off-hand discussion of what was presented here. As I thought over it more, I became impressed with the idea that here might be an opportunity for doing some real good in the improvement of Indiana’s tax system; and I want to say that I agree most fully with what has been said by the two preceding speakers as to the deplorable condition of our tax system, though I do not agree with them as to the remedy. In a meeting of this kind, in any movement for reform, I

believe that the only benefit that can come is from a free interchange of the actual opinions of the speakers, and I propose to say exactly what I think.

CHAIRMAN STOLL: You always do that, don't you?

MR. DUNN: And lest it be personal, let me say that I say it with malice toward none and charity to all.

A few days ago Governor Ralston said, "If I were asked to name the greatest hindrance to good government in this country today, I would not hesitate to say it is a lack of obedience to law." If he had added to this the words, "by public officials," he would have stated precisely the only material defect in the Indiana tax system. I concede that there are some minor additions and alterations of the law that might profitably be made, but so far as the general property tax is concerned—and the general property tax is certain to be, for years to come, the central feature of our tax system—the one overshadowing defect is the persistent refusal of tax officials to perform their sworn duty.

This utterance of Governor Ralston, at this time is peculiarly cheering. He is the man who has been chosen for the great constitutional duty of seeing that the law is enforced, and his relation to the State Tax Board requires that he see to the enforcement of the tax laws especially. He is just coming to the performance of that duty. His record is yet to be made. But from the time our tax law was passed, in 1891, up to Governor Ralston's term, we have not had a single governor who had intelligence enough to grasp the vast importance of this law, or the courage and honesty to enforce it.

And this is the more extraordinary—indeed it is the most extraordinary thing that I have ever met in economic history—because this law was a great remedial measure, which was passed as a party measure, and entrusted to party leaders for enforcement; but which has never been enforced for a single day. In the election following its passage it was the one great issue of the campaign, and even on the partial enforcement it had then received it was vindicated by an overwhelming majority of the people. And yet, although no political party has ventured to oppose the law since then, the violation of the law has steadily increased until now our tax system is in practically as deplorable condition as it was when the law was passed. The one great remedy offered by this law has never been tried at all. I do not ask you to take my word for this. I propose to give you unanswerable evidence of it.

And first of the purpose of the law. I was at the time of its passage State Librarian of Indiana, and I had instituted what has since developed into the legislative reference system in this country. I was also one of the editors of the *Sentinel*—the Democratic party organ—and the Democrats had the legislature. The state was financially embarrassed, and the situation had to be met. I secured and put in the State Library everything bearing on public finances and taxation that I could find. Among other books I obtained Prof. Ely's work on *Taxation in American States and Cities*, and on reading it I was satisfied that he had found the solution of Indiana's troubles. I submitted it to several intelligent and influential party leaders, including legislators, and they all agreed in this opinion.

The obvious cause of the state's financial embarrassment was the undervaluation of property by local assessors. Every county was in the race to lower assessments to escape state taxes; and every township was in the race to lower assessments to escape state and county taxes. Politicians hesitated to increase the state tax rates and consequently the state was in continual trouble. It has come back to exactly the same trouble now, for exactly the same reason; and has been forced to resort to temporary loans to meet its current expenses. The most evident and certain prevention of this evil was the separation of the sources of state and municipal revenues; and this was first attempted. Mr. Oppenheim, the House leader, introduced a bill turning railroad and certain other property over to the state for state taxation, and exempting it from local taxation. This was defeated by the combined efforts of the railroad lobby and the counties that had large railroad mileage. A proposal to turn half of the railroad taxes over to the state met the same fate.

There remained then nothing but a reconstruction of the general tax law with the purpose of meeting the same end. For this purpose it was decided to give the State Tax Board absolute power over assessments, with the right to increase or decrease the assessment of any county, and consequently of the entire state. But this was only the administrative feature of the law. Without any material change in its general provisions, it was determined to recast it on the following principles.

1. All inequality of taxation, under a general tax law is inequality of assessment. This is necessarily true because the rates are fixed as to all property, and the only variation is in the assessment.

2. It is practically impossible to secure equality of assessment except at true cash value, because this is the easiest and most natural mode of valuation, and whenever you leave it the assessor is adrift without rudder or compass. The task of recasting the law in accordance with these principles was left to Judge Timothy Howard, and he did it thoroughly—so well that it resisted successfully every attack made on it in the courts; and it was attacked at every point, by the ablest corporation lawyers of the country.

The great central feature of the new law was assessment at true cash value. Every tax official from the State Tax Board to the township assessor was required to take an oath to assess at true cash value, and only at true cash value. Furthermore, every one of these officials was put under penalty of three hundred dollars fine and a year's imprisonment for any failure to assess at true cash value. And yet, from the first not a solitary tax official in the state has assessed, or attempted to assess, property at true cash value.

The trouble began with the first State Board. At their request I made the first valuation of railroads for them. The existing inequality in railroad assessment was outrageous. Some roads were assessed as low as ten per cent. of true value, and one road, a Vanderbilt property in the north end of the state, was assessed at more than its true value. The Board scaled my figures thirty per cent., with an additional decrease in Marion County. I protested, and the Board urged that real estate had not been assessed at over seventy per cent. of true cash value, on the average, which was true. I insisted that it then perform its sworn duty and raise all real estate to true cash value, which it had full power to do. The answer was that if this were done, the tax rate fixed by the legislature would produce fifty per cent. more revenues than the legislature had contemplated; that the people were already excited over the general increase of assessments; that it would be political suicide to increase them fifty per cent. more. Being practically without backing, and helpless except to raise a row, I submitted. What was actually reached that year was an approach to a fair equalization at about seventy per cent. of true cash value; and that was a vast improvement. Notwithstanding the cut of thirty per cent. the railroad valuation of the state was increased from \$69,762,676 to \$161,039,169, or over one hundred and thirty per cent., while other property generally was increased less than fifty per cent.

This was one of the incidental demonstrations that it is the

large properties that escape taxation, with undervaluation. This fact was fully demonstrated by Prof. Ely, and it is the unanimous testimony of every tax investigation that has been made in the country. An actual test of the result was made in Center Township, Marion County, on the line of \$25,000 valuation. The tax duplicates showed five hundred and forty-nine (549) taxpayers assessed at \$25,000 or more, and these owned practically one-half of the taxable property in the township. Their assessments had been increased an average of seventy-five per cent. The remaining property in the township was owned by 38,014 taxpayers, and their assessments had been increased only fifty-five per cent. If the line had been drawn at \$5,000 instead of \$25,000 the difference would have been far more striking. In the ensuing campaign it became a common practice for Democratic speakers to get the tax figures on properties near which they spoke; and in the poorer parts of the city, although there had been a large increase in the total taxes, the speakers could point to neighboring properties and show that there had been no increase of taxes, or only an immaterial increase, in nine cases out of ten.

If the people could only be made to understand this discrimination we should soon have an end of undervaluation. The trouble is that the ordinary man whose property is valued at sixty, seventy or even eighty per cent. of true value imagines that he is a beneficiary of the system. But he is not. In reality any man who is paying on a sixty per cent. valuation in Indiana today is paying part of the taxes that ought to be paid by large property owners, and does not know it.

I have said that the undervaluation under the new law went from bad to worse, until now it is deplorable. I do not ask you to take my word for this—I read from the last report of the State Tax Board:

“It may well happen, and in actual practice does happen, every year, that there is a shocking lack of uniformity in the assessment of various items of personal property in the same county, and between the same items of personal property as between different counties.

“Under the law the State Board has no way of correcting such inequality. The only thing that it can do is to increase or decrease the valuation of the entire class denominated personal property, thus perpetuating the ratio of disparity.

“As this board can only increase or decrease the assessment of

all personal property as a class, it follows that a large number of people justly assessed would be obliged to share the penalty of a few who were enjoying an unfair discrimination. Further than that an attempt to equalize would in some instances lead to a ridiculous result. It has actually happened that moneys and credits have been assessed at one hundred cents on the dollar, while bank stocks have been assessed at sixty-five per cent. of the cash value."

There are thousands of widows and orphans in this state who have been assessed at one hundred cents on the dollar on the little insurance money that was left to them by a dead father or husband, while adjoining wealthy farmers have been assessed as low as forty or fifty per cent. on their land, or even lower than that, until this last year when the State Board of Tax Commissioners instructed the assessors to assess such money at seventy-five per cent. of the true cash value, and that concession is now made to widows and orphans in this state.

"In such a case, in order to reach the bank stocks it would be necessary to assess moneys at more than their face value.

"The difficulties attending the attempt at uniformity of assessment are infinitely increased by the general disregard of the mandate of the statute, repeated in many places, that all property shall be assessed at its true cash value. Even statutes making it a criminal offense for a property owner to give in a false list, or for an assessing officer to assess at other than the true cash value have no terror for the one or the other. The property owner feels that through no fault of his he is compelled to choose between perjury and confiscation and he more or less cheerfully chooses that which he thinks has become right by custom.

"When the present law was enacted in 1891, its author, a distinguished jurist yet living, intended that property should be assessed at its actual cash value, but adequate administrative machinery had not then been provided and the only chance to enforce the law, as written, was lost with the first assessment.

"In the intervening twenty years, the state and its various taxing divisions, have adjusted their fiscal affairs to fit the present method of assessment, and without radical legislative changes it would be disastrous, at this time, to attempt to enforce full valuation. The sudden increase of 100 per cent. in the debt incurring power of municipalities, would result in such extravagance and disarrangement of financial affairs that the state might not recover in a generation."

Note these words—"a sudden increase of 100 per cent." That is what the State Tax Board says would be needed to reach true cash value. In other words the average assessment now is fifty per cent. of true value, as against seventy per cent. in 1891.

But there are two other striking points in what I have read. First we have now reached the stage when it is proclaimed a virtue to violate law and official oaths. Note the words: "The sudden increase of 100 per cent. in the debt incurring power of municipalities, would result in such extravagance and disarrangement of financial affairs that the state might not recover in a generation."

The State Board must violate the law to save municipalities from criminal extravagance! How does that adjust to your ideas of local self government? Do you believe that the cities and towns of Indiana are capable of managing their own affairs, or that a self-appointed guardian, in the State Board of Tax Commissioners, is desirable? In reality by this undervaluation every progressive municipality in the state is being crippled. Our constitution limits municipal debt to two per cent. of assessed value, but the constitution contemplated that assessed value should be true value. That is a low debt limit, but it is practically cut in two by the undervaluation that exists, and public enterprises that require the use of public credit are defeated.

But again, this report puts the blame on local assessors. I dissent. I say the local assessors have made no worse record than the State Board has made with property which it assesses originally. Let us take railroad property. In 1891 it was assessed at about seventy per cent. of true cash value. In 1904, under the celebrated "business administration" of Governor Winfield Durbin, the total railroad assessment of Indiana was \$165,863,367. That same year the U. S. Census Bureau made an expert true cash valuation of all the railroads in the country; and its valuation of the Indiana railroads was \$375,541,000. In other words, the railroads of Indiana were assessed that year, by the State Tax Board, at an average of forty-four per cent. of true value.

Now take another step in the descent to Avernus. A few days ago public attention was called to the assessment of the Terre Haute, Indianapolis & Eastern Traction Company, in the strike controversy before the Public Utilities Commission. Now this company, in its own reports to the Commission, showed a capitalization of \$42,340,000, including the subsidiary companies; of which \$16,790,000 was bonds, and \$25,550,000 stock. It gave its estimated true value at \$41,946,000, but it was explained at the hearing that

this valuation was only "for rating purposes." The whole property was assessed for taxation by the State Board, in this same year, 1912, for \$4,668,647, or a little more than one-tenth of the company's estimate for rating purposes. But there was a more certain basis for valuation. The company reported its net earnings for 1912 at \$1,437,789.50. There is no active business property in Indiana that is not worth at least its six per cent. net earning value, and this is six per cent. on \$23,963,125, or a little more than five times the amount for which it is taxed. In other words, the State Tax Board has assessed this property for less than twenty per cent. of true cash value. You may assume that all other property assessed by the Board is on the same basis; or you may assume, what is more probably the case, that this property is assessed lower than other railroad property. But on either assumption, in what respect is the State Board doing any better than the most incompetent township assessor in the state?

Any thorough investigation will show that this discrimination in favor of large property owners exists everywhere in the state, as indeed it does throughout the whole country. Some months ago a Centennial Commission was authorized to take options on land for a centennial building at Indianapolis. The land wanted was held by a number of owners, none of whom were willing to accept assessed value for their property. But the small owners asked only about twice the assessed value, while the larger owners wanted three to four times the assessed value. The Commission waxed indignant over the rapacity of the owners, but that was not the explanation of the figures. The real meaning was that the small properties were assessed at about fifty per cent. of true value, while the large properties were assessed as low as thirty-three and twenty-five per cent. of true value.

The small owners of Indiana represent over nine-tenths of the people, but what they do not realize is that they are paying every dollar of taxes that is escaped by the large owners. If the people could get this simple fact into their heads, they would soon dispose of this iniquity of undervaluation. For undervaluation is the direct cause of this inequality, as is known by every tax expert in the country, and as has been demonstrated by every tax investigation.

Now, what are you going to do about it? You have the law absolutely requiring assessment at true cash value. You have every tax official under oath to assess only at true cash value. You have a penalty for any failure to assess at true cash value. What

more can you do? I believe this conference could do one thing that would really have some effect. It could adopt a resolution asking the Christian churches to pray for the moral development of the tax officials of this state. (*Laughter.*) Now, gentlemen, don't take that as a joke. One of my troubles is that sometimes what I say seriously is taken as a joke, and what I say as a joke is taken seriously. That is exactly what is needed, and the sooner the public understand it the sooner you will get it.

In this state the State Tax Board has been devoting its efforts to the utterly hopeless task of inducing assessors to violate the law to the same extent. It is told that a Governor of Indiana once said to a meeting of assessors, "Now, boys, we all know that we are all liars, but let's try to lie on the same basis." He might as well have pleaded with the wind. Whenever you let men understand that they can violate the law, at all, you will have as many varieties of violation as you have men to deal with, and it does not make any difference whether you are dealing with tax officials or saloon keepers, or any other class of people. Human nature is a constant quantity.

If this evil is to be corrected, people must be made to understand that it is a moral question. Can you distinguish between the moral turpitude of taking men's money at the point of a pistol, and taking it by a systematic violation of law under legal forms? To me the latter is the worse, in this case, for it is the robbery of the poor for the benefit of the rich. Think of it. The Terre Haute, Indianapolis and Eastern Traction assessed at less than twenty per cent. of true value—the average valuation of the state estimated at fifty per cent. of true value—and the widows' mite, formerly taxed at one hundred per cent. now reduced to seventy-five per cent. by the grace of the State Tax Board.

"Woe unto you scribes and pharisees, hypocrites! for ye devour widows' houses, and for a pretense make long prayers; therefore ye shall receive the greater damnation."

Can you suggest any more appropriate comment than that given by divine wisdom centuries ago? (*Applause.*)

THURSDAY, FEBRUARY 5—AFTERNOON SESSION

[Hon. Jacob P. Dunn of Indianapolis was introduced as the presiding officer for the afternoon session. On motion of Dr. William A. Rawles it was voted to hold over the discussion of the subject of the morning session for thirty minutes for any further remarks which gentlemen might wish to offer.]

MR. E. B. STOTSENBERG: Mr. President and gentlemen of the conference—During a brief service in the General Assembly of this state I have been giving some little attention to the tax question. I probably have only been touching the high spots. I was glad to receive an invitation to attend this conference because I knew this, that the tax problem was present in the minds of others in Indiana besides myself; and I felt that if I could come here and hear this discussion I certainly would take away with me much that would be food for thought.

I do not agree with Mr. Link, neither do I agree with Mr. Dunn, that the remedy of the tax situation in Indiana is simply either to change the tax law on the one hand, or on the other to enforce the present law differently from the way it is now being enforced. I think the evil of taxation in Indiana, the root of it, will be found much deeper than the present tax law. You must go to the base, and that is the provision in the constitution of Indiana authorizing your General Assembly to assess taxes.

Mr. Link says the present tax law was adopted twenty-three years ago. The basis of the present tax law was adopted two-thirds of a century ago, when Indiana was nothing but a pioneer state. There was practically no wealth in Indiana at that time. The largest city in the State was my home city, New Albany, at that time a city of less than seven thousand souls. Agriculture was the industry of the state. What was the result? The result was this: That when the constitutional convention of 1852 met at Indianapolis and formulated the present constitution they had in mind simply one thing—property—and to the minds of those men property was land or chattels. There was practically no money. And so they wrote into your constitution what to my mind is the cause of the present condition today in this state. They said this, that “The General Assembly shall provide, by law, for a uniform and equal grade of assessment and taxation; and shall prescribe such regulations as shall secure a just valuation for taxation of all property.”

The law provides for a uniform and equal rate of assessment and of taxation. What has been the result? The result has been this, that that basic law of the state has driven from the state all the growth—not all, but much of the growth that naturally would come here; and in addition to that it has expelled from the state much of the growth that naturally ought to remain here. It has made a tax law the basis of which is the single idea of present needs; and that is the trouble with the tax system today. Present

need. What revenue do we need in this year 1914? We have absolutely no thought of what effect a tax law is going to have on the future raising of revenue. We have absolutely no thought of what effect a tax law is going to have upon the future growth of the state. Solely and singly that, and I think that is what Brother Dunn has in mind when he says we must enforce the law and raise the assessment of property. Why? So as to bring in sufficient revenue this year.

Now, if we could close up each year, and if the effect ended with the end of the year, it would be all right; but we cannot do that. And so the result has been this: in order to raise money for today, for the time being, we have on the one hand increased assessments, and on the other hand we have constantly increased the rate of taxation. Now what do we want? We want to get away from that idea, and to adopt in this state, not simply a law through which and by which we can raise assessments, but which will, at one and the same time, put property upon the tax books for assessment fairly, justly and honestly; and at the same time have in mind the future growth and welfare of the state.

Under the idea that property is everything that you can put taxes upon, we have taxed money. Why money is the very blood that sustains trade. Going through the banks it sustains trade. Why should we tax it at all? There absolutely, to my mind, ought to be no tax on money. It produces but little revenue. It drives it out of the state. Take the borders of your state especially, situated as we are along the river. It drives from the state and from the channels of trade in the state, over into Kentucky, the revenue that we ought to be having here in Indiana. It drives it over there because it wants to escape taxation, and for the sole purpose of escaping taxation.

The remedy must be, as I said, at the root. You will have to go to the root of the trouble. Mr. Sims spoke to you of a constitutional convention. It was my privilege to draft that measure. It will be submitted to the voters at the next election. Whether or not it will be adopted no man can tell. At the time I drafted it I had grave doubts, and so, with it I quietly introduced in the General Assembly an amendment to the section of the constitution that I have just read to you. That amendment was agreed to by both branches of the General Assembly of 1913. Not much was said about it because it was not our purpose to take the attention of the people away from the main issue, but fearing, as I said, that the

proposition might not carry, this amendment was adopted. Let me read it to you. It is an amendment to Article 10, Section 1, one of the provisions of which I read to you a little while ago. It is as follows:

“Article 10, Section 1. The General Assembly shall provide by law for the assessment of property for taxation and the raising of revenue thereby.”

Nothing, you see, is said about the assessment and valuation, and that the rate must be equal and uniform.

“And shall prescribe such regulations as shall secure a just valuation for taxation of all property both real and personal”—

Then follows the exempted class; as in our present constitution, to wit: “Excepting such only, for municipal, educational, literary, scientific, religious or charitable purposes, as may be specifically exempted by law. In enacting laws for the assessment of property for taxation the General Assembly shall have the right to classify different kinds of property and to provide for a different manner and basis of assessment and rate of taxation for each class.”

If this, or a similar amendment, could be adopted to the present constitution, under it the General Assembly would have the right to pass a new tax law classifying property, putting a certain rate of tax upon land, putting a certain rate of tax, if it was thought best, upon personal property; putting a different rate upon mortgages; exempting money if you desire.

Until this is done, I do not believe that we here in Indiana can get any relief from the tax situation, by enforcing the present tax law, which has been tried for twenty-three years—and certainly twenty-three years is sufficiently long to determine the worth of anything.

Neither do I believe that you can get any relief from the situation by amending the present tax law. It will require a new foundation, and built upon that foundation, it will require a new law in accord with the tax law of the other progressive states in this Union. I thank you. (*Applause.*)

CHAIRMAN DUNN: Is there any other gentleman who desires to be heard? If nobody else wants to be heard we will go on with the regular program.

MR. STOTSENBURG: Mr. Chairman, I have some copies of this amendment that I will leave here at the door, and any gentleman that desires one can get a copy.

CHAIRMAN DUNN: We will next have the pleasure of hearing a paper on "The Taxation of Money and Credits in Minnesota," by Dr. Raymond V. Phelan, Lecturer in the University of Minnesota.

TAXATION OF MONEY AND CREDITS IN MINNESOTA

DR. PHELAN: Mr. President, ladies and gentlemen of the Conference—Minnesota has contributed, on the one hand, to the familiar American story of tax evasion, inequality, and injustice; this state, on the other hand, shows distinctly modern tendencies toward reasonableness, equity, and justice in the raising of public revenue. Minnesota, entering the Union in 1858, declared in its constitution for taxes as nearly equal as may be, for taxation of moneys, credits, bonds, stocks, and real and personal property, and also for certain specified exemptions from taxation. A wide-open tax amendment adopted in 1906 provides that taxes shall be uniform upon the same class of subjects. The next year, 1907, the legislature very wisely created a State Tax Commission, which might be described as a sort of administrative court essential to the fullest and most equitable enforcement of the tax laws of a state. In 1907 also, a mortgage registry tax law was enacted. This mortgage law (S. 1907, ch. 328.) stipulated a registration tax of fifty cents on each one hundred dollars of mortgage value, to be paid at the time of registration. The Minnesota Supreme Court has since decided that this tax is one not on the debt but on the privilege of registration (104 Minn. 179). Recently in 1913 (ch. 163) the mortgage registration tax has been changed to fifteen cents on each hundred dollars where the mortgage is to run to five years or less, and twenty-five cents where it is to run beyond five years. In 1911 Minnesota adopted a three mill tax on moneys and credits (exclusive of registered mortgages).

Up to 1907 the several county registers of deeds were required to furnish lists of all registered mortgages. These lists were added to the personal property assessment books. Minnesota had but rarely succeeded in taxing the mortgages of persons outside of the state; consequently the well-known device of registering fictitiously in the names of non-residents became general. The mortgage tax law was a decided failure. The average revenue from all credits for the years 1905-07 (this average is taken because the returns for 1907, \$281,403, were not normal) was \$306,534. In 1908 the mortgage tax alone yielded \$306,009, and the other credits \$238,124. In the last four years the mortgage registry law has brought in each year over \$500,000.

With the growth of Minnesota, the development of its commerce and industry, and the increase of its wealth, the inevitable evasion of taxes on intangible personalty became a matter of increasing significance. The money and credits listed in 1910 amounted to less than three per cent. of the estimated value of such property. Up to 1911 (the first year of the three mills law), moneys and credits had never exceeded twenty-nine per cent. of the total personal property assessment of the state. To remedy this situation, the Tax Commission recommended a special money and credit tax of four mills, which was estimated to be about ten per cent. of the average income on moneys and credits. The three mills law followed. Money in Minnesota includes, as usual, all forms of currency in common use whether in hand or on deposit in any bank. Credits embrace book accounts, bills receivable, notes, bonds, rents, annuities, and mortgages not paying the registry tax. (State and municipal bonds issued subsequently to the law are exempt). No deductions are allowed for debts.

Each citizen is expected under the three mills law to make a sworn statement, on a blank provided by the assessor, of all his money and credits. When such a list is sworn to, the assessor can take no exception to the items; but he may alter the values in accordance with his best information and belief. When a list is not sworn to or not returned at all, the assessor has full discretion with respect to items as well as to values. A fifty per cent penalty is supposed to be added when no return is made. The receipts from this tax go one-sixth to the revenue fund of the state, one-sixth to the county revenue fund, one-third to the city, village, or town, and one-third to the school district.

The three mills law was not approved until April 19, 1911; yet even in that year this law, supplemented by reassessments ordered by the Tax Commission, showed marked results. These reassessments, requested in some cases by the county boards of equalization and in others initiated by the Tax Commission, were made by ninety special assessors in 297 of the 2,400 taxing districts in 49 of the 86 counties. In these 297 districts the original assessments showed 1831 persons taxed on \$4,602,296; the reassessments discovered 8,630 persons for a total valuation of \$14,221,949. The average assessment for a person was approximately \$2,514; on the reassessment it was approximately \$1,648. It would be valuable to know whether the new law and reassessment insures a fuller assessment of everybody, or whether it results in a fuller return of a greater number of small holders who formerly evaded

in whole or in part. The Tax Commission in 1912 was greatly occupied with real estate assessments. In that year only seven districts in four counties were reassessed for money and credits. The assessment in these districts revealed 72 persons assessed at \$45,806; the reassessments revealed 134 persons and \$316,812. About one-third of the assessors in 1913 appeared to have failed of their full duty. Reassessments were made, however, in only 239 districts. The assessments in these districts were against 2,362 persons for a valuation of \$3,128,358. Upon reassessment these figures rose to 6,718 persons and \$8,311,668, or a gain in valuation of \$5,183,310. For International Falls, where there are three big companies, the valuation was increased from \$31,167 to \$417,114. In Fillmore County, from which there had come a Tax League protest against alleged over-assessment, the reassessment increased the original 77 persons assessed for \$64,454 to 214 persons assessed for \$345,561. Six districts of Ottertail County with 44 persons for \$23,950 according to the original assessment rose upon reassessment to 218 persons for a value of \$218,570. The reassessors are selected by the Tax Commission from among assessors who have shown reasonable merit and from among other persons competent for the work. Each one is paid six dollars a day (double the regular pay) and is allowed certain expenses. They are furnished by the Tax Commission with a very courteous, well-worded letter explaining the reason for reassessment, setting forth the change in the money and credits law, and politely urging upon citizens the fullest cooperation in enforcing this law. Copies of this letter are sent to property holders in the district to be reassessed. The reassessor is furnished also with helpful questions and is instructed to enlist the aid of the county auditor and citizens in a position to assist in the work of assessing anew. The total cost of reassessments in 1913 was \$9,019.48.

Under the old law, the total money and credit assessments amounted in 1910 to \$13,909,806, and were against 6,200 persons estimated. In 1911 under the three mills law 41,439 persons were assessed for \$115,481,807; in 1912 there were 50,564 persons for \$135,369,314; in 1913, 57,068 persons for \$156,969,819. No allowance obviously is made in these figures for increase of population or growth of wealth; but this is scarcely necessary, so marked are the increases just noted. Three mills instead of thirty mills, plus reassessments shows an increase from 1910 to 1911, from 6,000 persons to 41,000 and from \$14,000,000 to \$115,000,000. The old

provision was in operation decidedly inequitable. In it law and morality clashed. The new provision can be justly enforced. It, therefore, has two advantages. It tends to prevent the grievous inequality of the old tax, a tax "on honesty and ignorance;" and secondly, under it, the Tax Commission can conscientiously exercise that close supervision of local assessments without which a State can hardly have equity and justice in its taxation.

Minnesota's three mills tax has not decreased the state's revenue. In 1910 with an average general property tax of 28 mills, money and credits brought to the state a revenue of \$379,754.58; the three mills tax in 1911 yielded \$347,028.38, a loss of only \$32,726.18. The state minus St. Paul and Minneapolis showed a gain in revenue in 1911 of \$71,505.85. Sixty-eight counties showed a gain; only eighteen a loss. The loss, furthermore, in Minneapolis and St. Paul may have been only apparent, because of the practice in these cities prior to 1911 of lumping the properties of very large holders and then estimating the value of each class of their property. It should be noted, too, that no reassessing has been done in these cities. The total revenue from money and credits was in 1912, \$406,107.94; in 1913, \$470,909.67.

The grave trouble with the old tax on moneys and credits is not necessarily that it involves double taxation, for double taxation may square with the principle of equity according to the ability of the person to pay; but the old tax is strikingly wrong because it cannot morally or practically be fully collected. It would be unjust if paid by all; it is grievously unjust when paid only by the conscientious and the weak. The low Minnesota tax can be collected. In that State it is just as remunerative as the old law. Its comparative fairness at least, invites vigorous supervision by the central tax authority. This alone is highly important, for it may help to bring the people of a state to a realization of the great need of scientific assessments.

As compared with their predecessor, the Minnesota three mills tax and the mortgage registry tax have been immensely successful and satisfactory. That the three mills tax works full equity with respect to persons cannot with full assurance be said. When politics in Minnesota no longer stands in the way of the county assessor plan, a full return of money and credits may become a reality; but by that time a total exemption of personalty or substitution of income taxes may have brought about a no mills tax on money and credits. (*Applause.*)

CHAIRMAN DUNN: The next paper is entitled, "Defects in the Taxation of Corporations," by Dr. Oscar L. Pond, of Indianapolis.

DEFECTS IN THE TAXATION OF CORPORATIONS

DR. OSCAR L. POND: Mr. Chairman, ladies and gentlemen—Some optimist has said that to be truly hopeful is better than to arrive, and that true success is to labor. I hope we have all labored, if we have not arrived, and I think and I hope we are still traveling hopefully on the subject of taxation.

With the single exception of our municipal government, we have failed most completely with the subject of taxation; and Indiana must now take several steps in advance if she would continue to occupy a position of leadership in taxation, attained by virtue of her tax law of 1891. Our problems of taxation are becoming more complex with the constant change and development of our social, economic and industrial conditions; and we must more promptly and completely adjust our fiscal methods to our more highly developed civilization.

The general property tax is not adequate nor suitable for the industrial and economic development of today, and as actually administered it is one of the worst and most uniformly unsuccessful forms of taxation known to an advanced civilization like our own. Our general property tax sins against both cardinal principles of universality and uniformity in taxation, for every time one makes out his tax list as required by law, he necessarily perjures or robs himself, and even then this law fails to secure anything approaching uniformity in practice. This system is responsible for the all too prevalent feeling that it is just as legitimate to dodge taxes as death.

Officials of taxation everywhere declare that instead of actually taxing personal property the general property tax becomes a tax upon ignorance and honesty; for in practice it is generally imposed upon those who do not know how to evade the tax or are restrained by a nice sense of honor from doing so. It thus penalizes integrity and puts a premium on perjury; for even the scrupulously honest taxpayer cannot concede that he is under obligation to pay other men's taxes, although, as we all know, under a fair system of taxation where all contribute according to their ability, practically everyone would willingly assume his fair share of the burden for each would know that all others were paying their share.

We all agree with our state board of tax commissioners in the

statement made in their report for 1912 that there is a shocking lack of uniformity in the assessments of various items of personal property, and that under our law the state board has no way of correcting such inequalities. Bank stock is assessed at 60 per cent. of its market value in one county and at 85 per cent. in an adjoining county; while money and credits are assessed at 100 per cent., or more commonly not at all. While personalty, especially in industrial centers, constitutes the greater part of all property, it only pays a nominal part of the taxes, and even a relatively decreasing portion, although this form of property is increasing out of all proportion to other property.

If we would have personal property, and especially intangible personalty, pay its fair share of taxes, property must be classified for the purposes of assessment and the sources of state and local revenue must be separated. It is not possible, nor even reasonable to suppose that in our present advanced civilization all property, with its varied forms and complex relations, can be reached for purposes of assessment in the same way or taxed by the same method.

At all times and in all countries it has been found almost impossible to list intangible personal property for the purpose of taxation; and the difficulties in obtaining a fair share of taxes from this source have been greatly extended and multiplied by the complexities attending the growth and development of the modern business corporation; for in our industrial centers by far the greater portion of all property is in the form of such intangible personalty as corporate securities. And while as a matter of fact real estate and indeed most all tangible property, having a fixed situs, may be fairly well assessed locally and in the same general way, the vast and rapidly increasing portion of our wealth is in the form of intangible property which is not and can never be reached for taxation under our present system. This property must be assessed according to its form and at the place of its investment, and the tax collected at that source.

Let the localities, therefore, impose a tax sufficient to provide their necessary local revenue, on the real property and on the tangible personal property belonging to individuals, firms and to the local mercantile, manufacturing and miscellaneous corporations; leaving the financial and insurance companies and public service corporations, which frequently operate beyond the local taxing jurisdiction and are under the direct control of the State, to

be assessed for taxation directly by the state itself for the purpose of providing the state revenue.

The inherent difficulty of making a fair valuation of the property and especially the large portion of tangible property belonging to public utilities as going concerns, with the ability to earn and actually earning a definite income therefrom, makes it impossible to secure a fair and uniform assessment of such corporation by local taxing officials, because their jurisdiction is frequently more limited than the operation of the public utility assessed, and for the further reason that such local officials have not the expert assistance nor the funds at their disposal, necessary to make a correct valuation of the business as a single operating entity. Each local taxing jurisdiction would naturally assess in its own way and at its own valuation a segregated portion of a general system or one of many similar concerns, independently of the remaining portion or of other like utilities, with glaring inequalities resulting inevitably.

The advantages of separating the sources of state and local revenue would consist not only in furnishing a practical basis of classifying property for the purpose of its assessment but in obviating the necessity for boards of equalization which are now required to limit and, as far as may be possible, to overcome the natural tendency of each locality to assess its property at the minimum in order to escape as much state tax as possible—the state tax being now apportioned according to local assessment rather than local expenditure. With the sources of revenue completely separated each locality would be free to assess at its own valuation, for the rate would vary accordingly and this would be entirely independent of the state which would levy upon other property, not taxed by the localities, to secure the necessary state revenue; thereby securing at the same time greater freedom in fiscal matters to the localities or more complete home rule on questions pertaining exclusively to the revenue and expenditure of local government; and also a more highly centralized system of taxation for the State to secure its revenue direct.

Still more important, however, such a separation of state and local revenue would permit of the classification of property according to its form and furnish practically a complete assessment. The bulk of intangible property being corporate in form would be assessed by the State, which, having the means for the supervision or for the valuation of these corporations already available could much more fairly and conveniently assess such concerns as single

entities or operating systems. The public service commission has the verified reports from which with information of its own it is now required to make valuations of our public utilities; and from such data, indicating the extent of their investment, income or earning capacity, the state board of tax commissioners could easily and at slight expense make fair, uniform and adequate assessments of such corporations, just as they can of financial institutions and insurance companies from their verified reports made to the state auditor, and from other information equally available.

Vermont offers a striking example of the practical advantages to be derived from a separation of the sources of state and local revenue, which according to the commissioner of taxes has proven entirely satisfactory; for the aggregate amount of taxes collected from corporations has been constantly increasing, and has proven altogether adequate for the increasing state expenditures. This plan was authorized in California by constitutional amendment in 1910 and enforced by statutory enactment the following year, and is said to have given entire satisfaction to the localities as well as to the state. In several states including New York, Connecticut, Delaware, New Jersey and Wisconsin this principle is being applied gradually by providing part of the state revenue from special forms of taxation, while in Pennsylvania neither real estate nor personal property is taxed for the purpose of raising state revenue which is obtained independently of the local revenue from corporate assessments. Thus we find several states seeking to avoid an unequal distribution of our tax burdens by levying the general property tax for local purposes and by reserving for the use of the State, the revenue from the taxation of certain classes of corporations.

This plan for the separation of the sources of state and local revenue is entirely consistent with the policy of the centralization of administration which is one of the most characteristic and valuable features of our tax law of 1891, and it is in keeping with the general tendency in taxation; for by virtue of this plan of separation the state is given full power to assess originally and to collect its own revenue directly.

It would also permit of any locality, desiring to do so, favoring new industrial or manufacturing concerns as is now done in New York, New Jersey and especially in Pennsylvania.

In the edition of last year of his most excellent Essays in Taxation of Corporations, Dr. Seligman says: "Governments are everywhere confronted by the question, how to reach the taxable

capacity of the holders of these (corporate) securities, or of the associations themselves. Whom shall we tax and how shall we tax them in order to obtain a substantial justice? Perhaps no question in the whole domain of financial science has been answered in a more unsatisfactory way. In the United States we have a chaos of practice—a complete absence of principle; in Europe, with the possible and partial exception of England, the situation is scarcely, if at all better. Moreover, in spite of the generally recognized need of reform, there has thus far been no comprehensive attempt, from the standpoint of theory, to evolve order out of the chaos into which the whole subject is plunged.”

While in primitive society property may be the best available test of ability in taxation, the true test is always ability and not property, which is made use of only to measure tax-paying ability. The ability and the duty of the owner of property to support the government to the same extent and for the same reason that he supports himself and his family is measured most fairly and accurately by income or productive ability.

As society develops, economic and industrial conditions become more complex, property and industry assume more varied forms, and the capacity of the individual or corporation can no longer be fairly determined merely by property ownership. Whether a person is supporting his family on a salary income or from property investments he is equally able and responsible for the support of the government. With the more complex industrial development of advanced civilization property becomes more varied in form and appearance as well as in its earning capacity; and it is submitted that the manner of its assessment should change with the form of the property being assessed, in order that it may conform most completely to the particular class assessed and be comprehensive of all classes; and also that the earning capacity of the investment or the income of the corporation should be the basis of the tax.

As civilization advances the test or measure of ability to pay taxes must be shifted from property to product or income; and this is the reason for the inevitable failure of the property tax, which, when taken alone, is a crude method of determining the ability and defining the duty to pay taxes. Property, therefore, must be classified as to its form and productive capacity if we are to have a fair, uniform and comprehensive system of taxation, based on ability to pay and universal in its application. Such a system would

not only secure a fair division of the burdens of taxation but it should reduce the current tax rate one half, for probably less than half of the earning capacity of property and persons now pay all the taxes.

The bulk of our intangible property, which has generally escaped paying its fair share of taxes and which is rapidly increasing actually and relatively out of all proportion to other property, especially as to its earning capacity, is invested or deposited with corporations. The general tendency and natural effect of corporate investment is to concentrate property for the purpose of increasing its earning capacity; thereby collecting into a relatively few business organizations or industrial systems, practically all of the intangible, together with a large portion of the tangible property.

The small number of corporations as compared to the large number of owners of their securities affords a most compelling argument of convenience and economy for the taxation of the corporation rather than its securities in the hands of their numerous and widely scattered owners many of whom are never found, so that the portion who are taxed are required to pay in addition to their own fair share of taxes an even greater amount which belongs to the owners of those securities which are not returned, with a resultant rate of taxation imposed on that portion actually paying, frequently approaching the earning capacity of the security itself. By taxing all such intangible property at its source or the place of its investment, the expense and difficulty of assessing and collecting the tax would be reduced to a minimum and the tax could be practically uniformly levied and universally collected, with the result that the rate could be reduced one half. In other words, let us take the income or earning capacity of the corporation as the measure of its duty and ability to pay taxes and not attempt the impossible and inequitable assessment of its stock or property as such, especially when so much of the property is intangible in form and so incapable of assessment except on the basis of income or earning capacity.

The earning capacity of these corporate investments is determined by the integrity and efficiency of the organization issuing them, depends upon its operating as a single entity or as an integral part of an industrial system; and only as such can they be fairly and completely reached for purposes of taxation. The earnings of such corporations assessed as received by them as single operating

or going concerns rather than the valuation of their property, as determined by a number of local taxing officials often working independently of each other, determines, more conveniently and economically as well as far more accurately, the proper tax for each corporation. Earnings furnish a far more definite and convenient measure of tax paying ability than capital stock or property valuation where much of the property is intangible, and so incapable of valuation except as it is measured and determined by the earning capacity or income derived from its use in the business of the corporation.

It is only by taking earnings or income for the measure of the value of the intangible property involved that the many forms of corporate excess or franchise assessments of corporations can be determined with any degree of accuracy or fairness. The franchise tax, as distinguished from the fee paid for the privileges of incorporation, is necessarily an arbitrary assessment unless it is fixed in proportion to the value or earning capacity of the intangible property in addition to the actual valuation of tangible property; and as the only practical measure of intangible value is its earning capacity the franchise tax unless arbitrarily assessed is in fact a tax based on or measured by earnings or income. There is economically no justification for a franchise tax that is not in effect a tax of the intangible property or its income, for the privilege of becoming a corporation and acting as such is logically paid for at the time of incorporation. A tax on corporations measured by corporate income should include every subject of taxation that is legitimately taxable from the economic point of view, for income covers all property and reflects all value necessarily and properly belonging to the corporation.

As income or earning capacity determines the value of the property belonging to corporations and furnishes the best measure of tax paying ability why not tax it as such or use it directly as the measure of value in assessing such property? It is fixed and definite, not susceptible of evasion, easily and conveniently ascertained at slight expense to the state as well as to the corporation itself, and furnishes a fair practical basis of assessment.

As Dr. Seligman in his *Essays in Taxation* observes: "The value of the franchise from the economic point of view consists in the earning capacity of the corporation. This is the real basis of all taxation and can best be gauged by the amount of business done.

* * * In an economic sense the franchise tax means nothing

at all. It is so utterly indefinite that it defies exact analysis. However valuable it may be to the lawyer in the effort to evade certain constitutional restrictions, to the student of the science of finance it is a useless conception."

Our present day system of corporate accounting and of state and federal regulation and control of corporations has greatly simplified and facilitated their taxation according to income or earning capacity. Because of the nature of their investments and the variety of the forms of their property as well as the special privileges and obligations of public utilities, their taxation by the state according to their income, received within the state, affords the only adequate method, that is at once simple and comprehensive, of fairly and definitely assessing at least the intangible property and its productive ability of these public service corporations, which are seldom local and often interstate in their relations and operations.

Much of the property or capacity for earnings of public utilities is not represented by tangible property, and there seems to be a general tendency to abandon property in favor of gross earnings or receipts as the basis of their taxation, because the necessary facts are readily available and the plan is simple and definite, which goes far to avoid the inaccurate and arbitrary features which at times characterizes our present system or the lack of any fixed rules of assessment. In these cases publicity and a well defined system, easily administered and understood by all concerned, is the best precaution against inaccuracy, unfairness and suspicion.

As these corporations are subject to regulation by the State as to rates as well as service, the facts as to their earnings are always available to the State, and, as under a system of taxation based on or measured by their income, the amount of their taxes would vary with their income as determined by the rate regulation of the State, so where only a fair return on the actual value of their property was received the tax would be fixed and limited according to their income, and should not include a franchise or excise tax in addition thereto.

While the net earnings tax may be the most logical form for the taxation of corporations, as theoretically it is perfectly proportional to productive capacity, the gross earnings tax was recommended by a special committee of state railroad commissioners, which as early as 1878 reported that: "The requisites of a correct system of a railroad as of other taxation are that it should, so far as it is possible, be simple, fixed, proportionate, easily ascertainable

and susceptible of ready levy. * * * The conclusion at which your committee arrived was that all the requisites of a sound system were found in taxes on real property and on gross receipts, and in no others."

An exhaustive report of a special commission for Connecticut on the taxation of corporations issued last year declared in favor of the gross earnings tax by saying that: "The earnings of a corporation are the real basis of the value of its property, the value of its securities, and its tax paying ability. This statement will generally be admitted at once, and it is also demonstrated by the result of the experience of other methods of taxing corporations. As a matter of theory, the earnings of a corporation are the only true measure of its value and its tax paying ability. The basis of earnings is also the simplest in practice and the one that involves the least administrative difficulty. * * * The practical difficulties in the way of imposing a tax upon net earnings seems overwhelming. * * * The gross earnings tax, therefore, has the great advantage of simplicity, certainty, and ease of administration."

This is the position taken by the Ontario Commission of 1895, by the California Commission of 1906 and by those of Virginia and Rhode Island of 1911. Dr. Seligman, while ardently favoring the net earnings system as the ideal one which he hopes may be attained generally later under a better system of corporate accounting says that: "As a matter of practical wisdom it may be conceded, however, that in not a few of the American States simplicity and convenience of administration are preferable to more ideal but more difficult methods."

The Rhode Island law of 1912 provides that intangible personalty of public service corporations shall be reached through a tax based on gross earnings, and that of mercantile, manufacturing and miscellaneous (chiefly financial) companies through a tax based on corporate excess. These taxes are in lieu of all other taxes against intangible personalty either to the corporation or to the holder of its securities. From the standpoint of ease of administration and the production of revenue, their board of tax commissioners has found that this tax on gross earnings for public utilities has met every expectation. This gross receipts method of taxation is employed exclusively or in part in nineteen states for the taxation of telegraph companies; in twenty states for telephone companies; in twenty-four states for express companies; in fifteen

states for parlor and sleeping car companies; in ten states for street railways; in at least eight for railway companies; and in twelve for gas, electric light, heat or power companies.

Under this system of taxation, which continues to become more general, of course, it is necessary to classify corporations with respect to the prevailing ratio of their net to their gross earnings and to impose different rates upon the gross earnings of corporations according to this classification. It is said that the ratio of net to gross earnings is fairly uniform for railroads, express, telegraph, telephone and most all public utilities, each of which are classified accordingly; and the prevailing ratio for each class having been determined, the rates are graduated according to the fixed ratio. This rate should be equivalent to that imposed on other forms of property or income in determining their tax paying ability and duty.

As such corporations often become interstate in the scope of their operation or distribution uniformity of taxation among the states is essential to a fair and uniform distribution of the tax burden, and in view of the large number of states that have accepted or in which has been recommended the gross earnings system of taxation for these corporations it affords the most likely means, as it would seem to be the most practical method for securing in interstate as well as in state and local fields, uniformity in taxation. Every state should tax the income of all corporations actually earned within the state and only such earnings.

While not intending to encroach upon the question of the state constitutional changes necessary to improve our system of taxation, which has been assigned to Commissioner Wolcott, it is pertinent and I trust permissible in this connection to note that the United States Supreme Court in its decision of two years ago of the case of United States Express Co. vs. Minnesota, reported in 223 U. S. 335, declared valid a tax of six per cent. imposed by the laws of Minnesota upon the gross receipts for business done in that state by the United States Express Company which was in lieu of all other taxes on the property of the company, because the court found this to be a fair means of assessment and an entirely proper method of taxing such company, although some of the receipts in question were the proceeds of interstate commerce. The constitutionality of an income or earning tax in lieu of other property taxes as a federal question is therefore, well established, so that such a tax is legally as well as economically sound. (*Applause.*)

DISCUSSION

CHAIRMAN DUNN: We now come to the discussion of this interesting paper, to be lead by Dr. Frank T. Stockton, of Indiana University.

DR. FRANK T. STOCKTON: Mr. President, ladies and gentlemen—It is obviously impossible for anyone to discuss both of these papers in the brief time that is allotted to me, and I have therefore limited my remarks to the paper presented by Dr. Phelan on "The Taxation of Money and Credits in Minnesota," not with any idea of throwing more light on the Minnesota situation but rather with the idea of treating of certain phases of the classification system. It would seem that Minnesota's experience affords good evidence that there is something better than the general property tax. Under the system described the number of persons assessed for money and credits, the total amount of such property returned and the revenue to the State have all been greatly increased within a comparatively short time. Not only has the system apparently been a fiscal success but perjury has greatly decreased and the public morals consequently uplifted.

In other states where the same plan, or something similar, has been tried the same results appear. Maryland, in 1896 provided for a uniform local rate of 30 cents on the \$100 on corporate bonds and the certificates of indebtedness and the stocks of foreign corporations, plus a state rate of $17\frac{3}{4}$ cents. These rates were to be paid in lieu of other taxes. In Baltimore City, for which statistics alone are available, the assessment of securities in 1895 showed a return of only \$6,000,000 in round numbers. The reassessment of 1896 resulted in a return of \$58,703,795. By 1905 the assessment netted \$104,221,227; by 1913, \$191,970,999. These results have been attained in spite of the fact that recently the State tax was raised to 31 cents, a figure to which objection has properly been made on the ground that "the total taxes are too high and that the good effect intent of the law was lost." No one claims that even now all Baltimore holdings of securities are listed. Fear that the State would raise the rate, as has been done, has no doubt kept many persons from making proper returns. Again Maryland suffers from an inadequate system of tax administration which makes the situation still more difficult. This handicap, however, would seem to be one that can be easily removed. As it is, both the amount of property assessed and the revenue obtained

have been greatly increased, this, too, in a greater proportion than the gain in population or wealth.

As indicated by Dr. Phelan, Minnesota has followed New York in imposing a mortgage recording tax. In some quarters this method of taxation has been criticized on the ground that long term mortgages are unduly favored thereby. However, the mortgage recording tax may be looked at as merely a fee covering the cost of service. The expense of recording a mortgage running for one year is equally great with that of a mortgage running twenty-five years. Minnesota, however, has imposed a higher rate for long-term than for short-term mortgages. In New York the rate is one-half of one per cent for all mortgages. It produced in 1913 \$3,704,648.90. In this connection it might be pointed out that it is being urged by Congressman Moss who has been investigating the question of rural credits, that the first step for the benefit of the Indiana farmer who wishes to borrow money secured by his real estate, should be the abolition of our present tax on mortgages under the general property tax and the substitution of a mortgage recording tax at a low rate. It is well understood by all students of taxation that taxes on mortgages tend to be shifted upon the shoulders of the borrower.

The subject of the taxation of credits affords an interesting field for the study of double taxation. It can be fairly demonstrated that credits should not be taxed as they are only representative wealth or the "shadow" of wealth. Credits create no new property as for every credit there is a corresponding debit. Public sentiment, however, at least in Indiana, does not seem content to accept the view that intangible wealth should go tax free. On the other hand, it is unjust that the owner of a security should pay, as at present, from 40 to 90 per cent on the income from such security. Any person in Bloomington owning a taxable bond bearing 4 per cent. interest would find it advisable to give such instrument to charity provided it was assessed for its full value under the present rate of \$4.82. No personal property tax can be collected which is excessive, much less if it is confiscatory. As between exemption and confiscation there is a middle ground which is adaptable as a practicable program of reform. To adopt the classification system with a low rate on intangibles does not mean unfair concessions to capital or a decrease in revenue. Its adoption *does* mean a closer observance of the two great canons of taxation, namely, equality and productivity. The present general property

tax by reason of the incentive to evasion offered under it, has very properly been called a "tax on ignorance and honesty." In taxes, just as in railway rates, we must consider "what the traffic will bear." The observance of this principle has gone far in making our internal revenue system a success. The failure to observe it, has made the general property tax a national disgrace.

In conclusion, it might be said that a good deal of light could be shed upon the assessment of money and credits in Indiana, if, in the abstract of the tax duplicate compiled by the State Board of Tax Commissioners, such property were listed separately. Instead of this being the case, in 1910, money and credits were listed under the item, "True Value of Personal Property." In 1912 the interpretation of the duplicate was further obscured by combining personal and corporation property under one head. As I understand it this latter arrangement was required by the State Board of Accounts and was not due to the State Board of Tax Commissioners.

The "true value of personal property" reported in 1910 was \$434,841,995. This included personal property both tangible and intangible. On September 30th, of the same year, bank deposits alone, according to the reports of the State Auditor and the controller of the currency, amounted to \$258,485,596.95. Other kinds of personalty besides bank deposits, are merchandise stocks, banks, secured and unsecured debts, farm products and machinery, household goods and money on hand. Even allowing for uniform under-assessment on all kinds of property, it is evident that when the bank deposits of the state alone constitute 68 per cent. of the value of all kinds of personalty as assessed, the amount of evasion must be very great. The complaints of the county assessors at their annual conference about the escape of intangibles and the employment of "tax ferrets" are further evidences of this fact. The present system in Indiana, it would seem, could hardly be enforced as the law intends by the most God-fearing state board of tax commissioners on earth. (*Applause.*)

CHAIRMAN DUNN: The paper is now open for general discussion, if anybody desires to discuss it.

MR. DAN M. LINK: Mr. President and gentlemen—I think that there is a general misapprehension existing in the minds of nearly everyone concerning the amount of so-called intangible property escaping taxation. Figures do not lie, but they are often misinterpreted. Now the total amount of money on deposit in the banks

in the State of Indiana on the first day of March is not a true criterion, or measure, of the total amount of money in the State of Indiana subject to taxation on the first day of March. I know it is the general custom to assume that if the banks of a city have on the first day of March a million dollars in deposits that it all should be upon the tax list. Nothing could be farther from the truth, because if it were all given in for taxation a large proportion of it—the exact ratio of course I do not know—would be covered by deposits of corporations, various governmental agencies and others, whose money is not subject to direct taxation.

For instance, the method of assessing a mercantile or any other sort of corporation in this state, outside of the utility corporations assessed by the State Board, is to assess them upon their tangible property, and then upon their corporate statement filed with the Board of Review. There is an estimate made, or an examination rather, to ascertain whether the total wealth of the corporation is in excess of the tangible property returned. If it is, there is what is known as a corporate excess, and that is assessed by the Board of Review.

Now we know, as a matter of fact, that a very large proportion of the funds in the hands of the banks in this state are funds owned by corporations which are not assessed separately and distinctly from the excess. In addition to that the funds in the hands of the banks which are deposited by townships, towns, cities, counties, and other institutions which are a part of the governmental agencies of the state, are not subject to taxation; and those amount to a very large sum, a very large sum indeed. How much we are, of course, unable to ascertain because we have no data from which we could make these figures, but I think it is well to take that into consideration for the reason that we are likely to assume, and I think as a general rule do assume, that all the money in the banks over and above that which can be shown to be upon the tax list, is escaping taxation; and I do not think that is true.

Now there is another feature of the papers that have been read here, and the discussion of Professor Stockton, in regard to tax ferrets. Of course I think if he meant to make the statement that the state does employ tax ferrets, he is in error, and the statement is erroneous. Not only does the state not employ any tax ferrets, or any one whose duty approximates that of a tax ferret, but there is no law, there is no governmental agency in this state to employ tax ferrets, except upon a very limited scale, and for purposes

which are beyond the duties of any local township or county assessor.

Now, referring to this administrative feature in regard to the ability of the tax commissioners in the states of Minnesota and Indiana and other states to secure proper assessments, I was very much pleased at the cognizance which was taken of these difficulties by the gentleman from Minnesota and by Professor Stockton and by Dr. Pond; because when the State of Ohio went upon the full valuation scheme two years ago, with what was thought at the time to be the very best sort of machinery that could be devised, and with all the enthusiasm indicated by the gentleman who spoke upon the subject this morning, it was found that in order to secure anything like a uniform assessment, or full value assessment, it was necessary to entirely re-vamp and reorganize their administrative machinery; and they have done this by just wiping out all sorts of assessors and substituting therefor in counties under sixty-five thousand population the deputy of the State Board of Tax Commissioners with exclusive authority to assess all property in the county, and organize as a bureau for that purpose two experts, their terms being unlimited, their compensation being fixed.

In counties having a population of more than sixty-five thousand they have two deputy tax commissioners who are not to be of the same politics.

Now, of course, we don't know how that is going to work out, because they have not yet gone through an assessment. Experience will demonstrate whether that is a solution of the problem, or not. It will very nearly demonstrate, as I said this morning, the utility of the general property tax. But it has demonstrated one thing to the satisfaction of every person who has had actual experience in the operation of assessment laws, and that is that you cannot regulate from the top down. You have got to regulate from the bottom upward, and only theorists contend otherwise.

Now I do not want to go beyond the range of the papers that were read by these gentlemen this afternoon, and the discussion inaugurated by Professor Stockton, but I think it is appropriate here, in view of the unrestrained expression of the gentleman who led the discussion this forenoon upon the papers that were then read, to say that there is so wide a latitude between theory and practice in taxation that we may be led away by our enthusiasm for the study of the theory of taxation. If we could make the moon stand still, or the waves recede, by legislative enactment, or by a ukase delivered by the State Board of Tax Commissioners,

all these difficulties that we are now discussing would not exist; because we would cure them by an imperial edict.

But taxation is, in the last analysis, the most practical thing there is in any function of the government. It has less theory in it, and there is more downright common sense necessary to its utility and successful operation than any other function that the government is called upon to assume; and so we may assume, I think justly, that in 1892, after this very good law, the best law that had ever been passed up to that date, was enacted by our legislature, under the leadership of that great jurist, Judge Howard, and with the active assistance of our distinguished friend here who is now presiding, that when the man who then occupied the Governor's chair, and had surrounded himself with able advisors and colleagues upon the Board of Tax Commissioners who after due deliberation, with the intensest desire to secure the best results, determined upon a method of assessment at that time—I say, notwithstanding the advice of our friend, that we have a good right to presume that that was done with a very full knowledge of the condition of affairs which not only existed then but which has existed from that day to this. Twenty-three years have elapsed. That distinguished Governor and his colleagues on the Board have been succeeded by other Governors just as distinguished, and by colleagues who have not been entirely devoid of reasoning powers; and from that day to this there has been in their way a practical difficulty which only poets, with the license which poets and geniuses have, cannot understand. But it was a situation which had to be met by practical men. And today, speaking in behalf of my colleagues and myself who now constitute the State Board, I want to say that we have a full sense and realization, the Tax Commission has a full sense and realization of the difficulties in the present system of assessment. We realize, and so reported to the Legislature in 1912, that the assessment of property at less than its true cash value was like a ship at sea, without rudder or compass, that it was indefensible from any standpoint; and we prayed the Legislature to assist us in bringing about some sort of a reorganization by following the example of Ohio which limited its tax levy to ten mills for all purposes, or the example of Illinois which spread the levy upon one-third of the total assessment made. The Legislature did not see fit to make any changes at that session, and consequently we have still that situation upon our hands, a matter which has been given more attention, which has caused the Governor a great deal of concern, and which has not yet been

worked out; because, as you know, our assessment of real property is made but once in four years, and it is humanly impossible, and if it were not so it would be entirely unjust within the period of four years, after the assessment of real property has been ultimately and finally fixed for that quadrennial period, then to undertake to raise all other classes of property to its true cash value. So that the power and the reason for raising property to its true cash value from the time the real estate is assessed at one period until the next assessing period, which would be in 1915, is entirely wanting.

Now what will be done in 1915 depends upon conditions which should be studied and considered with the gravest care by the distinguished gentleman who now occupies the Governor's chair and by the gentlemen occupying the positions of Secretary of State and Auditor of State, who are *ex-officio* members of the State Board of Tax Commissioners, and the three Commissioners. I believe I can say of my colleagues, whatever may be said by my friend, that they rob neither widows nor orphans intentionally or knowingly, and they have no desire whatever to shirk any responsibility which rests upon them; but they are in a position where they are compelled to meet practical questions with practical common sense, and not with theory or force.

That is the situation, gentlemen, which all who have had practical experience in the operation of taxing laws are continually bound to meet; and this criticism which may come and has come to gentlemen who have had such experience, and had such burdens imposed upon them, is common. Of course, I presume we must suffer under such criticism so long as the taxing question remains in the position and in the condition it is now, where nobody is entirely satisfied with what we have, and so many would rather fly into ills we know not of. (*Applause.*)

CHAIRMAN DUNN: Is there any further discussion? Would any other gentleman like to be heard?

MR. H. J. MILLIGAN, of Indianapolis: Mr. Chairman—I am what was called in *The Mikado* a "terrified amateur," and I have dropped in here in that capacity. I want to express, more than anything else, the high appreciation that I have of the scope of the papers that have been read here today. Without having come in contact with the Tax Commissioners, I have been inclined to look upon them as fiery advocates of taxation at any price, or by any

method; and I must say that the papers that have been read by the ex-commissioner and by the acting commissioner have convinced me that this subject is receiving consideration in the broadest and fairest manner.

Now, in the very interesting paper of the morning by Mr. Sims, it was stated that the deposits in banks in Indiana were three hundred millions of dollars, I believe it was. Mr. Link has very properly said that a great deal of that money, under any system that is proposed, would not be taxable because it belongs to corporations. I think if the word goes out, as it would, that there are three millions of dollars in Indiana that ought to be taxed that is not taxed it would create almost a sensation. But that is not true. Take John Smith, of Bloomington. He may deposit a thousand dollars at a trust company in Bloomington. That is one deposit. The trust company in Bloomington will probably deposit that thousand dollars in a bank in Bloomington. That will be another deposit. The bank in Bloomington will probably deposit that thousand dollars in a bank in Indianapolis. So from one deposit you are liable to have four, because each of them shows a deposit.

But however that may be, I think it is conceded that the present system of taxation in Bloomington, where a man who has a thousand dollars is taxed about forty-five or forty-seven dollars, is an extraordinary situation. It is one that exists not only in Bloomington. It exists in Spencer, and in nearly every town in this State. A man who has on deposit a thousand dollars pays all the way from twenty-five to fifty dollars for taxes; and we know that money, when you eliminate all risk of loss of interest and loss of time, money on the dead level, is not worth probably over four per cent.

But the great question—and I am merely rehashing what has been said in these papers, but that is what discussion usually does—the great question is the taxation of mortgages. Now, an individual cannot loan money on good security at above five per cent, recently probably six per cent, without adding to it an element of labor; but five per cent. is the rate for money, sometimes as low as four per cent. upon real estate. Now to attempt to tax that from two to five per cent. of course we all concede produces a result which defeats itself, and will produce ultimately bankruptcy. Here is an individual who complains that his tax is too high. He gets very little consideration. "Well," they say, "that

is all right. It is all right. So long as this is a republic he ought to stand it." It reminds me of one of the French Kings before the Revolution. When his minister wanted him to levy a tax of ten per cent., although he was king of France he hesitated. So he called in his French advisor, who said, "Why, your Majesty, all this property belongs to you; and if you only take ten per cent. of it a year you are certainly exercising a great deal of restraint." Louis proceeded on that basis, and the French Revolution followed afterwards.

Of course, there is a good deal of that spirit abroad. Why, it is said, if the State is only taking four or five per cent., the State is exercising great restraint. It is exercising great restraint if it does not take ten per cent., or all of it. We have had men in high authority say to the people of New York, "Why you better be good, because the State can take all of your money. The right of inheritance, the right of disposition by will is permitted by law. It can be taken away by law, and the Gauls and Vandals may come in, and when you die it may all go to the State."

But we get back after all to this practical question. As I say, when the individual makes an objection he is met very often with very little consideration. You have got to show that the state will suffer by a law of that kind.

A gentleman was telling me today of a man who had lived in Indiana who had been extremely fortunate in his investments, far beyond the dreams of avarice, and came back to Indiana and said he would like to live in Indiana. "I would like," he said, "to bring up my children in this State, but I am going to investigate your tax law. My money is largely in bonds and mortgages which are already taxed. The property itself is taxed. These are mere shadows of property," as has been said here today. "I have got to consider whether I can live in Indiana and pay taxes on these five per cent. bonds." And he took up the question, and he said, "I cannot live here. I will have to go elsewhere." And he did go elsewhere.

Now, if the operation of your tax law is bound to result in something of that kind the State is not benefited, but harmed. The state cannot presume and will not presume that it is beneficial. If such rates are applied upon mortgages, we will say, it prevents the individual from loaning money. If you have laid by your money, if you are a professor in a University, if you are a lawyer or professional man, or business man, and you say, "I want to

prepare to retire and live modestly on my income," you cannot do it. You cannot invest your money in mortgages, or anything of that kind. Now the Insurance Company can lend. The Trust Company can lend, but the individual cannot.

This is only in line with what has been said here, and this is a highly practical question, and I am delighted to see that it is being approached by the professional talent as a practical question. I believe that out of this will come a solution of the question that will benefit the state financially.

Take this talk about mortgages, bonds and mortgages. We all know they are a device to allow youth and energy to get hold of the means with which to do business; and they provide the only means there is by which the man who is getting old, has accumulated his money, can invest it so as to derive a steady income from it. It is the only way that the young man who wants to do something can get the means to do it. He has to get hold of it by a bond or a mortgage, or something of that kind. It is not a club or an instrument of the rich man with which to oppress the poor man, as so many generally and mistakenly think. It is a device to allow enterprise, energy and capacity to get the means of production. Therefore, I say that this is a question that vitally interests the State of Indiana as a whole; it is vitally connected with its prosperity and development, and it is a great pleasure to me to have attended this meeting and heard these comprehensive and interesting papers. (*Applause.*)

CHAIRMAN DUNN: Is there any further discussion of the paper? If not, I would like to add just one word to what Mr. Link said about the misleading character of figures taken as those were. You are assuming that the tangible property of the State is assessed at its true value, which it is not. As a matter of fact there is just as much discrimination in the value of tangible property as there is in real estate, or anything else, and the same disparity between the assessment of large owners and small owners is very noticeable in it. If you will take a handsomely furnished house with expensive paintings, valuable carpets, a piano, and things of that kind, and compare the assessed value of that property with the assessed property of the man that is living in two rooms, or in one room, and get at the proportion, you will see that it is the small property owner, the small owner of personal property, that is paying the taxes, not the large one; and that the idea that personal property, tangible personal property, is all

taxed, is a mistake. So with blooded stock; so with anything that has an unusual value.

Now, unless there is something further on this question, we will proceed to the final discussion of the day, "Should a State Tax Association be Organized in Indiana," and I will call on Mr. Ernest I. Lewis, of Indianapolis, to open that discussion.

SHOULD A STATE TAX ASSOCIATION BE ORGANIZED IN INDIANA?

MR. ERNEST I. LEWIS: Mr. Chairman and gentlemen—Every one who has spoken thus far seems to be dissatisfied with the Indiana tax system, *except*, Mr. Dunn—and *he* does not seem to be satisfied.

At all events, it seems that this conference serves to bring before the state, temporarily, the subject of taxation. It directs attention to either, as Mr. Sims and others hold, defects in the system, or, as Mr. Dunn insists, defects in application of what he believes to be a good and adequate system. From these two widely variant points we find progress to an agreement, that at least we are now suffering from unequal taxation. Thus far, the conference has devoted most of its attention to taxation of money and credits. Even Mr. Pond, though talking on taxation of corporations, thinks the unqualified property tax principle obsolete. Other phases of dissatisfaction will be presented later in this conference. I have been greatly impressed by Mr. Sims's revelation of conditions in Indiana, especially in respect to money and credits.

He asserts that the tax rates, and rates of assessment, in Indiana towns and cities—the natural repositories of money—have become so unfair, and approach so nearly confiscation of the earnings on money and from credits, that Indiana money is being discriminated against in favor of money from other states. He asserts that Indiana money is leaving the state; that people with money are leaving the state and becoming residents of New York, California, Michigan, Pennsylvania and other states with laws thought to be more fair and equitable to money and credits.

He even asserts that our laws are so obsolete and so unfair, that today, if an attempt were made to actually enforce the Indiana tax laws, the doors of our banking institutions would close. This would wipe out the machinery created to perform the very necessary function of gathering in idle money and putting it into use.

These are very serious matters—certainly the whole state must

be interested deeply, if these statements are true. But *are* they true?

After presenting these alleged facts—the real condition in Indiana as he sees it—Mr. Sims incidentally quotes a very eminent theorist, Professor Bullock of Harvard University, as follows:

“The method and rates of taxation must be adjusted to the requirements of the various classes of taxable objects; no rate upon any class should be higher than can be collected with reasonable certainty. No rate should be so high as to drive out of a community persons of capital or industries, and any rate that exceeds what a class of taxable objects will bear, must result in loss of revenue, injury to industry and such general demoralization as accompanies wide-spread evasion of the law.”

Mr. Sims's statements of facts, if found to be true, go strongly to prove the fact that Bullock has stated a scientific basis for taxation. If it is really scientific, and if Mr. Sims's statements are true then, no matter where one is in Indiana, there he should not only find the conditions which Mr. Sims states, but the effects which Professor Bullock states.

We are now in Bloomington. The tax rate in Bloomington is 4.82 per cent. The Monroe county farmer must have money, and generally speaking, on sums greater than \$800 he is demanding it at 6 per cent. On smaller sums he must now go up to 7 or 8 per cent. This is the general condition over Indiana. If the Bloomington man with idle money loans money to meet the county's legitimate demand for that money, he gets 6 per cent. The loan goes on record, and there is no escape from taxation. If the law is enforced to the letter, he must pay 4.82 per cent. of his 6 per cent. to the public treasurers. Here, however, he is let off now with a 75 per cent assessment of money, which means that out of the \$60 that he receives as interest on a \$1,000 loan he must pay over \$40.

We talk, with much earnestness, about the tremendous burdens of taxation that regal England must bear and think that the income tax of 26 or 28 cents in each \$4.86 is a crushing burden. We likewise deplore the heavy taxation in ambitious Japan where, under war emergency, it amounted up to 33 per cent. of income. But we overlook the fact that while Japan takes 33 per cent. in emergency, and Great Britain's burden is only 5 per cent. of income, here at home, in Bloomington, money loaned at high farm mortgage rates is subjected to a taxation of 66 per cent. even after deduction of 25 per cent. in assessment for taxation is allowed.

But thus far we have dealt only with the 6 per cent. recorded mortgage loan. Bloomington has savings banks. The rate of interest is 3 per cent. on savings. If the savings are reported, the saver has to give over his 3 per cent, and then dig down into his pocket and pay another 1 per cent. or 1.82 per cent. for the privilege of losing money by saving his money. In short, on money and credits, in this community, where we test out Mr. Sims's statements, and Professor Bullock's theory, taxation has got up to the point of 100 per cent.

Wherever such conditions, or conditions anywhere approximating these, exist, one of several things must happen. First, money and credits are sequestered. In Bloomington the return of all personal property this year is \$1,110,000. There are in deposits alone in Bloomington banks \$1,400,000, or \$300,000 more in deposits alone than the total return of all personal property. The result of this is that this property by refusing to bear a part of the burden, increases the burden on other property.

Second, local idle money is denied local needs. Bloomington city and county officials and bankers tell me that there is a greatly increasing investment here in non-taxable bonds and stocks—most of them issued outside of this county.

Third, people living on money, move away. This increases the burden on those left behind, and I understand that this is the case here to a certain extent, but that the more noticeable demonstration of this principle, or effect, is that people of means who would like to move here to educate their children, refrain from doing so.

I want to take just a moment to apply this to interest rates. At the county court house, and at the local banks, I am told that practically all of the money that is now being loaned in this county is eastern money—the money of the big insurance companies—or is school fund money. Two local men dealing in loans estimate that nine-tenths of the money demanded and borrowed by Monroe county farmers is this money that comes from outside the state.

It is obvious that the Bloomington people with idle money cannot compete in loaning money at home here, with a person living in Indianapolis where instead of the taxing officials taking 66 per cent. of the income as is the case here on mortgages of record, the taxing officials take only about 40 per cent. But the man in Indianapolis, in his turn, cannot compete with the eastern insurance companies and others lying outside the state who can loan money in Monroe county and escape taxation entirely, or if they

desire to conform with the law in New York and some other states mentioned by Mr. Sims, can register the loan paying once, and for all, one half of one per cent. or if they live in Pennsylvania, Rhode Island, Minnesota and some other states can pay a specific special tax of only 3 or 4 mills annually.

Let us summarize the results: In the first illustration the conditions drive the interest payments out of Monroe county—away from home—to Marion county. In the second illustration—and the one which states the true condition—the non-state people are given practically a monopoly in this and other Indiana counties of meeting the legitimate and necessary demand for money, and the interest goes out of the state, and goes, as a rule to swelling the surpluses of the great insurance companies located outside of this state. It would be difficult to find a more serious state of affairs.

It is true that the tax rate in Bloomington is very high. As I came down here last evening, I ran over the Biennial Report of the Indiana State Board of Tax Commissioners for 1912. It was impossible to take the tax rates for all towns and cities in Indiana, but I *did* tabulate the tax rate of the county seats for 1911. Obviously it would be confusing to read the 92 local rates here, so I have struck the average. Often the county seats do not have as high rates as some of the other towns and cities, but let us take the county seats as possibly giving a fair average for the tax rates in all incorporated towns and cities in Indiana. The average for 1911 was 3.14 per cent. It is much *higher* than that now, as very few towns and cities have reduced their tax rate in the last two years, while decided increases are the rule.

For example, the Bloomington rate in 1911 was 3.87 per cent. now it is 4.82 per cent. The Indianapolis rate has jumped from 2.14 per cent. to 2.36 per cent. It is safe to say that the average for 1913 is between 3.33 and 3.50, which means, if applied, the confiscation of return on commercial paper and savings deposits, and a taxation of 70 per cent. on the return from 5 per cent. loans and almost 60 per cent. on the return from 6 per cent. loans.

Were it not too personal, an interesting list of people of large means who have moved to New York, California, and other modern taxation states could be read. Another list could be given of Indiana people withdrawing Indiana loans. The demagogue may say: "Let the tax dodgers go," but as they do go, and withdraw their contributions to the public treasury, the demagogue's burden becomes greater.

As the tax rate goes higher, sequestering property becomes greater, and that in turn boosts the rate still higher.

There is much talk now about farm credits. Even the national government is studying the *Landschaften*, and *Reiffeisen* systems in Germany and the *Credit Foncier* in France. But could either of these systems be established in Indiana, for example, when 4 or 4½ per cent. bonds or even 5 per cent. bonds, would be subject to a taxation which ranges from 2 1-5 to 5 per cent.?

There may be an easier way to get the farmer 4½ or 5 per cent. money than that. It might be done by letting Monroe county people loan Monroe county people money on fair tax basis, such as other states are providing. The farmers of a township can borrow money at 4½ per cent. collectively to build gravel roads—and those securities are not so good as a mortgage on the farmers' own land, on which they have to pay 6 or 7 or 8 per cent. There would be one other advantage, aside from lower rates to farmers and greater revenues to reduce the tax rate. That is, the interest money would not be flowing out of the State, as Mr. Sims also asserts, money and people are doing.

Just one other word. Mr. Sims and Mr. Dunn both referred to unfair assessments of money and credits. I tested that out here, and the test is true to what will be found in all other counties. Farms are assessed at about 40 per cent. or less than that of their value, real estate in towns and cities is assessed less than 60 or 50 per cent. Other personal property is weirdly assessed, but money in its various forms is assessed 75 per cent. In some counties, county boards of review have insisted on 100 per cent. I recall an illustrative incident that occurred in a northern Indiana county three or four years ago.

A man who was loaning money to farmers was called before the county board of review. The investigation revealed that he had been reporting in 70 per cent. of value for assessment. The chairman of the board was particularly insistent on compliance with the law—a valuation of 100 per cent. The lender said that other property owners in the county were only reporting in all the way from 33 to 50 per cent. value while he reported 70 per cent. This made no difference with the chairman.

Finally the lender turned to the chairman and said: "You have a farm west of town. How much do you return it for taxation?" Reluctantly came the information, "Forty dollars an acre." "I will," he said "give you \$50 an acre." The offer

was declined. "I will give you \$75 an acre." Again the offer was refused. "I will give you \$100." Again refused. "Well, I will give you \$150 an acre." Still the chairman refused. Perhaps he would have refused \$200 an acre, but he did insist on money and credits being listed at 100 per cent.

Gentlemen, this conference is notable. It arouses temporary interest. Is this conference to end with this interest? There is only one way to maintain and spread this interest, and get the people of Indiana to decide whether it is a defective system or a defective administration that is responsible for the general discontent and apparent inequalities.

I believe that we should take steps here to organize a State Tax Association. Similar associations have produced results in other states. In the proceedings of the Sixth Annual Conference of the National Association on State and Local Taxation, there is a description of the Dakota Association. It conforms much to the organizations in New York and other states, and I am not going into that in any great detail; but here are the objects that are stated in its by-laws:

"1. The encouragement of the study of state and local taxation in North Dakota.

"2. The promotion of legislative and administrative reforms in our taxing system.

"3. The publication of papers and other materials relating to revenue and taxation.

"4. The holding of meetings for conference and discussion of such questions.

"Membership. All persons and institutions such as libraries, clubs, schools, etc., interested in studying our present revenue and taxation systems, shall be eligible to membership in this Association."

Well, the record is that they have been effective up there. They have brought about a good many reforms both in their taxation system and also in administration. Both of those points Mr. Dunn and Mr. Sims agree upon, in a certain way. One talks about the defective system and the other talks about the defective administration of what he considers a good system.

I believe that, if it is possible, the State Tax Association should be very directly connected with the State University's extension work. This conference has been held under those auspices. If we can remain under such disinterested auspices we might escape

the charge of this being a movement on the part of bankers, brokers, tax dodgers and corporations, and other so called "predatory interests." We might, free of such handicaps, get a study of the problem and presentation of the fact that Mr. Sims presented here, that in Rhode Island a specific low tax on certain classifications of property produces substantial increased revenues, and eases up the tax burden—and stops lying. Dr. Phelan and Dr. Stockton have just shown us that the same results have been realized in Minnesota and Maryland. We should weigh these things, and Mr. Dunn's observations, and see what is wrong, and be an organized force to get corrections.

Personally, I believe that we should have a permanent headquarters located in Indianapolis with a man in charge who will keep this tax question before the people of Indiana through the papers and by seeing to it that speakers go before the various meetings held in this state, such for example as the grange, bankers, labor conventions, and get them interested in this study. This is especially desirable if we are to have a special investigating commission appointed by the legislature, or if we are face to face next year with a constitutional convention.

I hope that others will express their opinion as to what, if any, steps should be taken, and it may then be timely to lay before you a motion, providing that the chair appoint a committee of three this afternoon to take up this matter, to fully consider it in light of the suggestions, and make a report to this convention tomorrow morning so that if an association is thought to be desirable, we can take steps *here and now* to effect it.

I thank you for your consideration. (*Applause.*)

CHAIRMAN DUNN: Gentlemen, the question of organizing is before you. I hope you will express your views fully and freely on the subject, as to what you think ought to be done.

MR. MARCUS S. SONNTAG, of Evansville: Mr. President—Mr. Lewis has covered the case pretty thoroughly in his paper. We have listened to some very interesting addresses this morning and this afternoon, and I feel confident the addresses that are to follow will be equally good.

This is a subject that needs the consideration of every man in the state that is interested in the welfare of the state, and I think a permanent organization should be perfected with headquarters in Indianapolis, because we can all get into and out of that city more readily than any other city in the state. I have a letter

here from a prominent man in Iowa, and I would like to read just a portion of it that covers the ground we have been discussing today. He tells what the change in the taxing laws of the state has done for Iowa. He says:

“In relation to the taxation of moneys and credits in our state, would say that until two years ago moneys and credits were taxed the same as other property. Our people realized that this was inequitable, unjust and unreasonable, for the reason that real estate is not taxed at its full value, while moneys and credits were. As an illustration: A building that we own in this city, valued at ten thousand dollars, is assessed at three thousand dollars, while any person having ten thousand dollars in money or credits is assessed at the full ten thousand dollars.

“Under the old law we had the tax ferret system in this state, and at any time a city council or board of supervisors could employ one of these tax ferrets, contracting to give him fifteen per cent. of all the taxes he collected on what was termed omitted property. The tax ferret system became so obnoxious that a few of us led a fight to get rid of them, and the Thirty-fourth General Assembly passed a bill repealing the tax ferret law in this state. There was general rejoicing, not a single newspaper in the state defended the system; on the other hand, nearly all of them condemned it.

“A bill was then passed making the tax on moneys and credits five mills, or one-half of one per cent., in all localities. In other words, a man living in Muscatine pays no more tax on his moneys and credits than a farmer who lives in the country. The result has been to increase the amount of money and credits returned for taxation, and it is predicted that it will prevent so many people from leaving this state to reside in states where the law governing the taxation of moneys and credits has heretofore been more favorable than ours.

“We are told that in the State of Connecticut, when they changed their law, I think it was to four mills on the dollar, it doubled the revenue for moneys and credits.

“I am not familiar with the law of New York, but both New York and Pennsylvania have similar laws to ours, and they are well pleased with the plan. The New York law, as I understand, practically exempts some classes of securities to resident owners, but I am not familiar with its provisions.”

So it seems that they are very much pleased with the change in their laws there in Iowa.

CHAIRMAN DUNN: Is there any further discussion?

MR. EBEN H. WOLCOTT: Mr. Chairman—Along the line of what was said about taxation driving people and capital out of the state, I wish to call attention to a circular I recently received from Houston, Texas. It has in very great headlines, “Reasons why people should move to Houston, Texas.” Then,—

“First. All real estate is assessed at seventy-five per cent. of its value.

“Second. Improvements upon real estate are assessed at twenty-five per cent. of the value.

“Third. That there is no tax on notes, bonds, mortgages, evidence of indebtedness, household goods, or personal property.

“Fourth. That the rate is \$1.50.”

CHAIRMAN DUNN: Is there any further discussion?

MR. OREN H. RAGSDALE, of Indianapolis: Mr. President—In the same connection there is one point I believe that has not been touched upon that is worthy of consideration. Last year, during the session of the Legislature, a great deal of time was given to the discussion of a “blue sky” law. One was finally passed by both the House and the Senate, and I think fortunately vetoed by the Governor. I chance to be interested in the investment business. I am particularly very closely in touch with taxation. Quite recently, in fact very recently, parties come into our office whom we feel quite certain cannot afford to take a chance with their principal. We will offer them what we think to be high grade securities. One of the first questions asked—they will be very much interested, but they will ask the question almost invariably, “Is this bond taxable?” If it chanced to be a corporation bond, no matter what the nature of the corporation, no matter how high grade, we answer, “Yes,” and they immediately lose interest. If we should have in our list of securities a wildcat proposition which was not taxable we could interest them in that at once. We would get their interest right away, on the ground that the thing was not taxable. It is much easier to sell a preferred stock in our present market than it is the highest grade of corporation bonds. A person will buy the stock of the same company in preference to the bonds, even though the rate may be the same, because the stock is not taxable.

I think we are all interested in serving the public in Indiana, and I believe that a good fair equal tax law would be a very good

substitute, at least in part, for the "blue sky" law. I am in favor of a permanent organization. (*Applause.*)

PROF. JAMES W. PUTNAM, of Butler College: Mr. President,—I liked the suggestion that was made that Indiana University, through its Extension Division, should look after this, and get the right men at the headquarters to be established at Indianapolis; but I take it we are not the people to decide how Indiana University shall spend the money to support its Extension Department. I would like, however, if a motion is in order at this time, to move that a committee of three be appointed to investigate the possibility of such an arrangement, and to report to-morrow morning.

MR. ERNEST I. LEWIS, Mr. President—Whatever we do here, if we organize a State Tax Association, let it be one to get down to facts and find out whether Mr. Dunn is correct or whether Mr. Sims is correct. At all events to find out what is the something that is wrong.

Now, the danger that Mr. Link speaks of, and that I just touched on, is that unless the thing is pretty well guarded it will be branded at once, or very soon, as being a highly interested organization. I think that is one of the things we want to be very careful about, if we are going to organize. We had better not organize at all, if that is going to be the situation.

CHAIRMAN DUNN: Did you make a motion, Mr. Lewis?

MR. LEWIS: Yes, I did present that motion.

CHAIRMAN DUNN: In view of the suggestion of Mr. Lewis about our being suspected of being interested at once, I wish to assure the audience that I am not a capitalist, and that Mr. Lewis is not. The rest of you I cannot speak for, but we are just common folks. Is there any discussion of the question of the appointment of the committee?

DR. WILLIAM A. RAWLES: Mr. Chairman—I wish to say that I am not in a position to speak for the University in regard to this matter of the Extension Division taking over this work. I feel myself, though, that this can be more effectively done by an association, rather than by some one representing the University. I am sure that the University will cooperate always with such an association.

We have had well demonstrated here today the fact that there is a great dissatisfaction in this state with our tax system, and

that there has been for many years, and you will find, if you will read the reports of the Auditors going back to the days of the forties, that the same dissatisfaction was expressed. Now why is it that a condition that creates such dissatisfaction continues so long? It seems to me that there are several causes that contribute to this. One of these is the natural inertia of people, the indisposition of people to undertake something which is a little different. Another fact is that we are all individually so interested in our own affairs, in our own business, our professions, whatever our calling may be, we are all so interested in these, and so absorbed, that we have not the time to give to the consideration of these matters of state, and matters which require a great deal of time to solve and supervise.

Then, again, I think sometimes we feel that we are in the grip of a system, that it is not worth while, that we cannot do much anyway. I frequently have felt this for ten years. "Well, what can I do?" "What can I do?" "What is the use?" "I am only one man, unknown in the state; what can I do to bring about a better condition?"

Now, it seems to me that what we need in this state is an arousing of public opinion, an arousing and stimulating of the thought of the people upon this question. And it will require a campaign of education, and a campaign of education will require some directing authority, some association, some group of persons who are unselfish, who are willing to put a little money into this thing, who are willing to back this up and give of their time and convenience and comfort what is necessary to drive this movement forward and arouse public sentiment.

Therefore, I am strongly in favor of the organization of an association here which can create a sound public opinion upon this question; which can take up these questions, as Mr. Lewis says, and study them and investigate them and bring information to everybody upon them—clarify the atmosphere. You see there is quite a difference of opinion here, and out of that will come, I think, a benefit to the state as a whole. I see no way in which we can get out of this difficulty except this way of public sentiment, arousing public sentiment and developing public opinion.

In the introduction of the proceedings of the Second Conference, the National Conference on Taxation, there is found a statement which I think summarizes the reasons for a Tax Association in an admirable way, and I want to read it:

“To bring together the students and teachers of the theories of taxation, to invite the tax administrators to recount and explain the problems and difficulties and the practical effects of administering the various systems of taxation, and finally to obtain the criticism and suggestion of those who pay the taxes, is the surest way to secure the gradual elimination of the evils and inequalities of taxation.”

I therefore second this motion very heartily that this committee be appointed with the request that they proceed to draft a constitution for submission, either tonight or tomorrow morning.

MR. ERNEST I. LEWIS: Mr. President—I want it understood that my motion was simply that this committee consider it. If we then find we want to go ahead let them formulate, if they will; but my motion was just simply to consider the proposition, and to determine the matter of financing it, under whose direction it shall be, and report tomorrow morning.

CHAIRMAN DUNN: Do you object to the committee reporting tonight?

MR. ERNEST I. LEWIS: I just want to make it, Mr. Chairman, so that it will not be lost in the closing hours of the conference. In the last session everybody commences to “light out.” Therefore, if we are going to do anything we ought to get at it and lay the foundation here, and we ought to be pretty well along in the organization before the conference adjourns.

CHAIRMAN DUNN: Your proposition is simply for a preliminary consideration, before undertaking to prepare a constitution or organization at all.

MR. ERNEST I. LEWIS: I think, Mr. Chairman, if it is desirable, if they decide that it is desirable that we organize an association, they should go ahead and give us the foundation for it, and start things.

CHAIRMAN DUNN: I should think that they might at least report tonight whether it is desirable to form such an organization.

MR. ERNEST I. LEWIS: I think that would be very well.

MR. MARCUS S. SONNTAG, of Evansville: Mr. Chairman—Why not have the committee report tonight, or tomorrow morning?

MR. ERNEST I. LEWIS: Let them investigate and report to-night, so that we can take the necessary steps by tomorrow noon, at all events.

CHAIRMAN DUNN: Your motion is then, as I understand, for the appointment of a committee to take the necessary steps for the organization of a Tax Association, if they decide that such an organization is desirable. Those in favor of the motion will say aye. Contrary, no. The motion is agreed to.

I will appoint Mr. Lewis as chairman of that committee, and Mr. Bowman of Richmond, and Mr. Lapp, and Mr. Remy, the other members; and ask them to get as far along as they can by this evening's meeting. Now is there any further business?

MR. ERNEST I. LEWIS: Mr. Chairman—I do not want to occupy the floor too much, but my time is strictly taken up for tonight. I have all I can do, and if you will please excuse me from that committee I think it would be better. You seem to have a good committee without me, and I have to report the meeting.

CHAIRMAN DUNN: I think the chairman would be authorized to set the rest of the committee to work, and then he can go make the report of the meeting. Is there any further business to come before the association?

MR. LAWSON PURDY, of New York: Mr. Chairman—It occurs to me that possibly it might interest some of you people if for just three minutes I told them what might be done in the case of the gentleman to whom the attorney, I think Mr. Milligan of Indianapolis, referred, who wanted to reside in Indiana; and also just one word or two about the conditions that exist in New York. I am to read a paper tonight, but I haven't in that paper told you just these things.

Being an attorney, and being concerned with taxation for many years, and having for the last seven years or a little over been tax commissioner, my mind turns to the solution practically, under the laws as they are here, of the question involved in the situation of Mr. Milligan's friend. Had Mr. Milligan's friend come to my office for advice I might have advised him in this way, provided only he had a wife in whom he had confidence, and it appeared he did have a wife and had children. I think I should have said to him, "Bring your bonds to the State of New York and pay one-half of one per cent. tax on those bonds. Then they

are tax exempt forever after in the State of New York. Then make a trust deed by which you would convey to one of our responsible trust companies the title to those bonds, naming your wife as your beneficiary for life, with a reversion to you at her death, and return to Indiana.”

DR. FRANK T. STOCKTON: And be happy ever after. (*Laughter.*)

MR. LAWSON PURDY, of New York: Oh, of course I would rather have him live in New York, but I just wanted to see if I could not arrange it so that he could live in Indiana. I never have suggested to anyone, for a fee or in any other way, anything that was not such that they could tell the whole story to anyone who had any duty in the matter. That story could be told at the New York office. He could say there, “I have named the Union Trust Company trustee. I have deposited five million bonds with them. I have paid the taxes on those bonds to the registrar of deeds and the Comptroller of the State. They are all tax paid. I will show you the list if you would like to see them.” Then he can go away happy and owing nothing to the State of New York. He could go to the assessor here and say, “I have deposited five million dollars of bonds with the Union Trust Company of New York. They have the title. I merely have a reversionary interest. My wife is the *cestui qui trust*. She has a right to the income. When the income is here, if we do not succeed in spending it before March 1st, why then you can have some of it.”

Now that practically illustrates what we have done in the State of New York on this question of long term debt. Any bond secured by a mortgage on real property in the State of New York is exempt from all taxation if it pays one-half of one per cent. at the time of record. So, any mortgage that secures a debt that runs one year or ten years or a hundred years—it doesn't make any difference.

Likewise, you can take any bond secured by mortgage on real property outside of the State, or by deed of trust, or that is a mere debenture bond, to the Comptroller of the State or to his Deputy in the City of New York, and have it stamped by paying one-half of one per cent.; and therefor that particular bond, or evidence of debt, is forever exempt from further taxation. Deposits in savings banks are exempt from taxation. Of course they only pay from three to four per cent., and you cannot get

people to save money on the theory that they are to get three per cent. and pay two per cent. to the town in which they live. They will not do it. They would be like the school teacher in Ohio. I cannot tell you the whole story, but I can tell it quick. The lady saved a thousand dollars, and she went to the father of a friend of mine who lives in New York. The father lived in a little town in Ohio, and was a banker, and she asked his advice as to the investment of the money. He advised her to buy a good safe bond that would pay her five per cent. and she did so. And then when the time came she made up her tax list for that year. She had never made up a tax list before; hadn't had enough to make it seem worth while; and she put in the bond. Bye and bye she got a tax bill, and the bill was for fifty-seven dollars. She went to the tax collector. She was a little amused about it. She said, "Why, this is a mistake. I have a bond, but the income from that bond is fifty dollars, and you have given me a tax bill for fifty-seven dollars." "No," the tax collector said, "that is right; the tax rate is \$5.70." She says, "What on earth do you do with the money?" "Well," he said, "there is the poorhouse; we have to support that." She says, "That's where I go; and I blow this bond;" and she did. (*Laughter and applause.*)

PROF. J. J. M. LA FOLLETTE, of Bloomington: Mr. President—There are some inequalities, we all know, in the matter of taxation, and especially in administration; but Indiana is not as bad off as you might think, after hearing this discussion this afternoon. People can live in Indiana with a fair degree of comfort and be happy and make money. There is not any need of being discouraged about it. And in discussing this tax matter we ought to be careful not to make it appear too bad. Let us just be a little guarded about what we say here and do, and discuss it fairly and conservatively, and make some improvement in this matter if possible, and especially in administration. I think there is really the most serious part of it.

There could be some improvement in the matter of taxation with the adoption of the amendment to the constitution that has been submitted by Senator Stotsenburg, but let us not get the idea here today that this means necessarily a constitutional convention. We can amend the constitution much more easily and with much less expense and with much more safety to the State of Indiana not to have a constitutional convention, but let it take the ordinary process of an amendment to the constitution.

There are a great many theories that won't work out in practice, and I was very much impressed with the statement made by Mr. Link along that line.

Some years ago a state in this Union concluded that it would be wise to equalize the matter of taxation, especially as to mortgages and real estate, by passing a law declaring that all mortgages should be an interest and recognized as an interest in real estate, and be assessable and taxable at the location or site of the realty, and that to the extent that the realty be mortgaged the realty itself should be exempt. It is somewhat akin to our arbitrary rule of exempting seven hundred dollars, in which there never was any reason, but yet which was held to be constitutional. But in this state they exempted the entire amount of the mortgage from the valuation of the real estate, and taxed only the margin of the real estate to the owner, and the mortgage to the mortgagee, whether the mortgagee be a resident of the state or non-resident; and this rule would seem equitable.

Here would be a taxation of the mortgagee for the amount of the interest that he had in the real estate, and that would be taxable and payable where the real estate is; and the margin of the real estate value would be taxable to the owner. And that would appear equitable, and that law was held to be constitutional in the state, and constitutional by the Supreme Court of the United States; but it never has been adopted and worked out as planned because it has been argued from time to time that it is not a practical theory to work on, although it reasons out very nicely, because it has a tendency to keep money out of the state, and it makes after all, necessitates really, a contract between the mortgagor and the mortgagee, and he pays just about as much as he would under our own Indiana system.

So that it is not every theory that reasons out nicely and seems a valuable thing that will work out in practice, and we have to consider that somewhat; and if there is any purpose in this association I am inclined to think it would be an advisable thing to have a Tax Association, if they will confer together with intelligence and consideration and a fair degree of conservatism, along the lines that seem to be advisable; but do not let us run off after every theory that happens to be presented as a plausible thing, because it will not always work. (*Applause.*)

CHAIRMAN DUNN: Before dismissing you gentlemen I would like to add just one word in the line of what has been said by

the last speaker. I presume he was referring to the experience in Oregon. The idea there was to make the non-resident mortgagor taxable by making his mortgage real estate, and exempting the mortgagee's property to that extent. It resulted at once in an agreement between the mortgagor and the mortgagee that the mortgagee should pay the tax. If he didn't pay the tax he didn't get the money. That was all there was about it. If he paid the tax the result was just exactly what you had before, that the land was taxed up to the full amount and the mortgage was not taxed.

There was no reason why a scheme of that kind should spread to any other state. It was just an elegant and elaborate waste of time that didn't amount to anything at all.

Now, in regard to this Purdy proposition, I am not greatly impressed with all these schemes of other states. After reading Governor Dix's statement of the financial condition of New York—I think it was a year or so ago—I would not be inclined to go to New York from Indiana for advice on the tax system; and I would like to ask Mr. Purdy in regard to this scheme of his for living in Indiana, if you consider that a deposit of bonds or money with a trust company in New York wipes that property out of existence?

MR. LAWSON PURDY, of New York: Why, Mr. Chairman, no. But I take it that probably under the Indiana law the condition is the same as under the laws in other states that I have studied, that you tax the legal holder of the property, the person who has the legal title, and not the beneficiary of a trust fund.

CHAIRMAN DUNN: Well, I think we tax the beneficiary of the trust fund.

MR. LAWSON PURDY: For the capital value of the trust? If you do, of course my plan would not work for the benefit of the gentleman Mr. Milligan talked about. But I do not, I cannot, think that is proper.

MR. MILLIGAN, of Indianapolis: We tax the trustee.

MR. LAWSON PURDY, of New York: You tax the trustee. If a man dies and leaves a fund to one of your citizens as trustee for the benefit of his children, that citizen is taxable in reference to that fund, and not the children of the man who died. That is what I thought. The beneficiary of the trust is not taxable. It is the trustee who holds the property who is taxable.

I have nothing to say about the desirability or undesirability of it. I was just trying to see how I could help that man, so that he could live in Indiana. (*Laughter and applause.*)

CHAIRMAN DUNN: The only thing that struck me about it was this, that in such a case as that there were in fact two people who were really interested in that fund, the *cestui qui trust*, and the reversioner. The trustee is a mere figure head, a man of straw, and I do not believe that any such scheme as that can be worked in Indiana. (*Laughter.*) I think the way out of it—

MR. LAWSON PURDY: Ask counsel of the audience, Mr. Chairman.

CHAIRMAN DUNN: I think the simple way out of it in Indiana is the customary way, and that is simply to lie about it in the first place, without going through all this formula.

MR. LAWSON PURDY: We are better trained than that in New York.

CHAIRMAN DUNN: Is there anything further to come before the conference this afternoon.

DR. WILLIAM A. RAWLES: Mr. Chairman—I should like to request, if there are any members of the conference who have not registered that they do so. We wish to have a complete record of all the persons attending this conference. We hope to be able to supply each person with a copy of the proceedings.

I wish also to say that the meeting this evening begins at 7:30, and I think we will have three very interesting papers; and after the session is over the visitors are invited to a little refreshment by the Faculty Club. I believe that is all.

CHAIRMAN DUNN: The conference will then stand adjourned until half past seven this evening.

THURSDAY, FEBRUARY 5—EVENING SESSION.

The convention was called to order by Dr. Rawles, pursuant to adjournment.

DR. WILLIAM A. RAWLES: Ladies and gentlemen—I assure you it is a great pleasure to us to see that the various parts of the State of Indiana are represented here today. This morning the presiding officer came from the extreme northern part of the state.

The presiding officer for the afternoon session was from the central portion of the state. The presiding officer of the evening session is from the southern portion of the state. It gives me great pleasure to introduce to you Mr. Marcus S. Sonntag, of Evansville, who will preside this evening.

CHAIRMAN SONNTAG: Ladies and gentlemen—I thank you very much for this honor. I came here to listen today and tomorrow, and not to be heard. As the presiding officer tonight was called out of the city, I take great pleasure in trying to fill his place. We have but one representative from Evansville here tonight. Over the long distance telephone I received a message from one of our prominent attorneys who said that he had overlooked his invitation to come here, and was very much disappointed, after reading some of the proceedings of this meeting today in the evening paper, that he was not here. He intended to come. He said the people in southern Indiana were taking a great interest in this question, and he hoped that something would be started here that would give the people that have not been in attendance a chance to discuss this question before the meeting of the Legislature; and I hope when this committee reports tonight they will give them that chance.

The first speaker of the evening is Hon. Lawson Purdy, President of Department of Taxes and Assessments, in New York City, and his subject is, "Recent Tendencies in Taxation."

RECENT TENDENCIES IN TAXATION

MR. PURDY: The American people are supposed to be a practical people but in matters of taxation they have been for nearly a hundred years to the highest degree theoretical. Again and again, they have refused to revise their theories when the theories have broken down in practice and been proved by experience to be erroneous. It is a curious fact that in affairs political men will adhere persistently to theories that they fail to carry out in practice when in every other branch of human endeavor they reject a theory that does not work.

Before the middle of the nineteenth century, a theory seems to have been adopted in most of the states that in order that taxation should be equal, it should be imposed equally on all forms of property. This theory appears to be indigenous to American soil. So far as known, it was never heard of in any other country and its

practice was never seriously attempted by any other people. It seems possible it may have originated from the early practice of roughly computing the tax that ought to be paid by the farmers of a community by counting the farmer's acres and the number of his cattle. About 1846 a tax law was enacted in Ohio that was intended to secure the equal taxation of everything and in 1851 the principles of that tax law were enacted in the Constitution. For thirty years, Ohio has been trying to amend its Constitution in this respect and so far without success. Illinois adopted a similar provision in her Constitution about the same time, and Minnesota, shortly afterwards, followed Illinois. The Indiana Constitution appears to lay down as strict a rule as do the Constitutions of Ohio and Illinois.

These iron-clad Constitutions practically permit no departure from the system known as the General Property Tax. This system takes no account whatever of the difference in the incidence of taxation upon different classes of property. Apparently, those who adopted the theory of the General Property Tax supposed that all taxes are paid ultimately by those who pay them in the first instance. Today, whatever theories we may hold as to incidence, we know perfectly well that some taxes are shifted and some are not. As a general principle, we are practically all agreed that the tax upon land is amortized and immediately reduces the capital value of land and that such tax is not shifted to the user of the land, that in general taxes on things which cannot be reproduced are in like manner amortized and reduce the capital value. On the other hand, we know that generally, taxes on things capable of reproduction tend to be shifted to the users or consumers of the things. We know that there is much economic friction and that no economic law works out to its logical conclusion immediately or fully or equally at all times and in all places. We do know, however, that tendencies operate inevitably and that to a degree, the logical results are achieved. The General Property Tax assumes an isolated community unaffected by conditions in neighboring communities and uninfluenced by the markets of the world. It assumes an equality of result in the tax upon a house and lot yielding five or six per cent. net to the owner and upon the five per cent. bond bought at a price determined by the world markets without reference to taxation. It assumes equality of burden when a tax is imposed on a stock of goods which is turned over once in two years and upon a stock of goods which is turned over four times a year. Why multiply illustrations? The General Property Tax assumes conditions

that never were and never will be; that never can exist and never ought to exist.

It is but natural that men have finally found out that the theory of the General Property Tax never was right and never will work. They have, therefore, sought to amend these Constitutions that prevent change and adaptation to new times and new circumstances.

The National Tax Conferences of the last seven years have been an important agency for moulding public opinion and this is seen as plainly in the movements to change Constitutional provisions as in any other. In 1907, the National Tax Conference unanimously adopted the following preamble and resolution:

“WHEREAS, the greatest inequalities have arisen from laws designed to tax the widely differing classes of property in the same way, and such laws have been ineffective in the production of revenue, and whereas the appropriate taxation of various forms of property is rendered impossible by restrictions upon the taxing power contained in the Constitutions of many of the states;

Resolved, That all state constitutions requiring the same taxation of all property, or otherwise imposing restraints upon the reasonable classification of property, should be amended by the repeal of such restrictive provisions.”

Shortly after this a committee of the National Tax Association prepared suitable constitutional provisions in relation to taxation and recommended them to Arizona and New Mexico. These provisions are as follows:

“The power of taxation shall never be surrendered, suspended, or contracted away. All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax, and shall be levied and collected for public purposes only.”

That re-enacts the Fourteenth Amendment to the Constitution of the United States in part, and that is probably unnecessary, but all of it is harmless.

This recommendation was adopted by Arizona in almost the same form as it had been adopted by Minnesota and Oklahoma. It has since been submitted in several other states. Constitutional amendments have been adopted or are now pending in several states. The Constitutions of most of the northeastern states adopted

at an early date, impose no restraint upon the reasonable classification of property for taxation. It is the states that adopted Constitutions in 1850 or since that have attempted to put most of their tax statutes in the Constitution.

Prior to 1880, nearly all the states depended almost exclusively upon the General Property Tax. In that year, the State of New York began to copy Pennsylvania which never did have a General Property Tax and adopted the tax on corporations for state purposes. Since then, the State of New York has devised one tax after another to supplement the General Property Tax or in part to take its place, until today the aggregate revenue from various special taxes is about fifty million dollars.

The State of New York is unhampered by constitutional restraints. Other states which enjoy like liberty have adopted much the same policy. In recent years Connecticut, Rhode Island, Minnesota, Iowa and Maryland adopted a low rate of taxation on certain forms of intangible property in place of the ordinary local tax rate. This tax is generally payable annually, but in Connecticut may be paid for a period of five years in one payment. In 1906, the State of New York adopted what is known as the Mortgage Recording Tax. This tax is payable at the time a mortgage is recorded and is at the rate of one-half of one per cent. of the principal sum secured by the mortgage. The tax is the same whether the mortgage is for one year or for one hundred years. It is in effect a privilege tax on the recording of the mortgage. The yield of the tax varies with general commercial conditions and has amounted to between three and five million dollars a year. The law provides that mortgages recorded prior to 1906, and bonds secured by such mortgages, may be made exempt from further taxation by the payment of a like tax. When the tax is paid in respect of a trust mortgage securing bonds, the bonds are all exempt from other taxation. The general form of this statute has been followed by several states, among which are Alabama, Michigan and Minnesota.

In 1911 the State of New York adopted a similar form of taxation for practically all evidences of debt not payable within one year and not covered by the recording tax act. This act is known as the "Secured Debt Tax" and is made as nearly like the recording tax as practicable. When the tax is paid in respect of a bond or other evidence of debt, a stamp is affixed and that evidence of debt is exempt from further taxation during its life. This statute has been followed by Michigan.

In 1901 the State of New York subjected banks and trust companies to a tax, measured by their capital, surplus and undivided profits. The tax is at the uniform rate of one per cent. regardless of the local tax rate. This plan was endorsed by a committee on bank taxation of the National Tax Association. In substance, it has been followed by a few states and others seek to do the same thing.

As a practical question that one per cent. tax on the capital, surplus and undivided profits yielded more revenue in the State of New York the year after its adoption than the previous law which imposed a tax upon the market value of the shares at the local rate which then was over two per cent. I was then President of the Tax Department, and as a general rule it did produce more money throughout the state. In some places it produced considerably less, for it was a fact that in the State of New York at that time the assessors, the local assessors, in assessing at alleged market value varied all the way from thirty per cent. to a hundred and ten per cent.; and in some towns where the rate of taxation was very heavy it happened that assessors were particularly diligent to assess bank shares at full value. The banks sought redress on the theory that they were entitled to an equalization, but the courts denied them that relief, I think erroneously, but they did. The law has been a great success. It has been working thirteen years.

This paper is not designed to be an accurate history of recent events nor a complete recital of all the departures from the General Property Tax which have taken place within the states. It has been prepared hastily, without time to verify dates. In substance, however, the statutes described sufficiently illustrate the tendency throughout the United States to depart from the uniform system of taxation imposed by the General Property Tax.

So far, the changes noted have had reference solely to one form or another of personal taxation. In the case of real estate, the changes are of equal importance. A number of states have already subjected public service corporations' property to taxation as a unit, the value being determined by more or less fixed mathematical principles and frequently the tax rate being at a fixed rate instead of the fluctuating local tax rate.

The sentiment of the National Tax Conferences has been almost unanimously in favor of the assessment of such property by a central board rather than by local assessors and a very general sentiment has been evident that such property should be taxed by uniform rules and at fixed rates.

During the last few years a tendency has been evident to impose a lower rate of taxation on buildings and other improvements than on land. This tendency has been exhibited in the lower assessment of buildings at Houston, Texas, and some other places, even without any authorizing statute, and it has also been shown in the Act passed a year ago providing for the reduction of the tax rate on buildings in Pittsburg and Scranton, Pennsylvania, at the rate of ten per cent. every three years until the rate on buildings shall be but one-half as much as the rate on land. Bills to accomplish this same result have been introduced in the legislatures of various states. Like movements have been in progress in Eastern Canada, following the example of the provinces of British Columbia, Saskatchewan and Alberta.

This policy in regard to the assessment or taxation of buildings reverses the policy that has been common of assessing buildings at a higher rate than land. Twenty years ago in the City of New York, it was the policy to assess vacant land at a smaller fraction of its value than improved land. Today, the tendency is quite in the other direction in many places. As the incidence of the tax on land and building becomes more generally recognized, it is probable that the movement to reduce the taxes on buildings will gather strength. The owners of small houses are coming to perceive that their property generally consists of two or three parts building value to one part land value. As the houses decline in value from age, the land generally rises in growing American cities. The home owners object to improving the value of land for the benefit of the owners of unimproved property. This is one of the arguments made for the change and it seems to be growing in popularity.

During the last twenty years an increasing number of states have established State Boards of Tax Commissioners. At first these boards generally had little power, but their powers have steadily increased until there are several states, like Kansas and Wisconsin, in which the State Board of Tax Commissioners has almost absolute power to enforce rules to govern the conduct of local assessors. In these two states, the State Board of Tax Commissioners may order the re-assessment of any district and may even re-assess it by its own agents. As more and more is required of local assessors, there is a tendency to make their tenure of office more certain; to enlarge their jurisdiction and increase their pay. Local assessors are standardizing their work; provide themselves with more accurate maps; use land value maps and use rules for the determination of the value of irregular lots, short lots, deep lots and corners. They

are using rules for the assessment of buildings. In a good many places now, land value maps are published or exhibited in assessors' offices.

I brought one that was published in New York, and leave it here so that anyone who may be interested may see it.

In some cities, as in the City of New York and Middleton, N. Y., the assessment roll is published. An attempt is made to analyze every assessment and give such publicity to methods of assessment that every person interested may judge for himself of the accuracy of the work of the assessors. Publicity is the keynote of these improvements.

The sentiment is growing that the assessing system of a state should, in very large measure, be controlled by the State Board. That in rural parts of the state, the unit of assessment should be the county rather than the town, as it is in many western states, and that the assessors should be appointed under strict civil service rules by the State Board rather than be elected or appointed locally. This change is necessary in order that the assessor may have work enough to occupy him the entire year; so that he may devote all his time to his duties and become an efficient, trained public servant.

It has, moreover, become more and more insisted upon by these several State Boards that the assessment shall be as the law requires, at full value. There is opposition to assessment at full value by many of those who are most interested in an assessment at full value.

Just to put a little touch of human nature into this, let me describe an experience when Mr. Low was elected mayor in the City of New York, in 1901. Some of us had been interested merely as persons desiring an equitable assessment of real estate, in having assessments made at full value—it had been the practice in the City of New York to assess at about sixty per cent. of full value, that is to say, sixty per cent. was probably the average. In many cases assessments were not more than thirty-five per cent., and in some cases assessments were eighty or ninety per cent., that is to say, they varied by more than a hundred per cent. People are misled by saying one assessment is at eighty per cent. and another is at sixty per cent. They think of it as only twenty per cent. below, but it is not. It is twenty-five per cent. If one is eighty per cent. and the average is forty, the man at eighty is paying on twice his share. Seth Low promised this little group of men if elected mayor he would require the Tax Commissioners to

assess at full value. Another circumstance which cooperated to produce the same result was the fact that the borrowing power of the city depended upon the assessed value, and a large borrowing capacity was greatly desired. The mayor did issue the order to the Tax Commissioners that he appointed to bring about an assessment at full value. A certain group of real estate owners, representing chiefly persons who owned tenement house property, appealed to the mayor for a public hearing to protest against this change of policy of disregarding the law in favor of a policy of obedience to the law. The President of the Tax Department at that time was a good friend of mine, and he asked me to come and represent the Board and speak in their behalf before the mayor at this hearing. I arrived at the mayor's office a few minutes before the hour set, and found both his large rooms and the passageway jammed with people who had come there to protest against a full value assessment. I finally worked my way to the front of the crowd, but did not have room enough to move my arms. They orated at the mayor and his Tax Board for two hours, and then those who were in favor of the policy announced by the mayor were given an opportunity to speak. I was alone, and I said my say. It was to the effect that it was very extraordinary that this group of people who owned property that was over-assessed in proportion to the rest of the real property of the city, should come there protesting against having their taxes reduced.

Now if they had stopped to consider the matter just a little they would have known that that was true, but they did not. What I prophesied of course came true. Their property on the average was increased by, not as much as three quarters of the average increase, for the city tax rate fell from something like \$2.30 to \$1.41, and those people paid, every man of them, less tax the following year than he paid the year before. And that is the way that this thing generally works. The little property with which the assessor is familiar is assessed at a larger percentage of its actual value than is the property of larger value with which the assessor is not so familiar. That is one of the faults of assessing, that every assessing officer ought to be familiar with and guard against; and even if he is familiar with it and guards against it with all the intelligence in his power, even then he is likely to have a heavier burden on small properties than on large ones.

When you consider this full value affair, I suppose you have a condition such as was described here today as existing in the City

of Bloomington, and it is no uncommon thing. It is the rule throughout the United States—under-assessment—and the average, let us say, is fifty per cent. I do not believe personally that Bloomington is assessed much over thirty per cent. The reason I say that is because I am told that the tax rate here is \$4.80. Now I do not believe that there is any town in Indiana paying more than one and one-fourth or one and one-half per cent. on full value. That is all theory, based on past experience. Suppose it is fifty per cent. Now the man whose property is assessed at seventy-five per cent. in all probability does not know that he is hurt, and yet he is paying fifty per cent. more than his share, even if the rule is fifty per cent. There is but little friction about it. Of course, I am talking about annual assessments. A quadrennial assessment is really no assessment at all. You want assessors on the job three hundred days of the year, and thinking about it on Sundays, in order to get your assessments the way they ought to be. Could there be anything that is more unfair than that those whose property rises in value should get off with less than their share, whereas the people whose property is falling in value pay more than theirs? If you assess once in four years, and do it with absolute accuracy, that is what must happen. Why, if you could assess twice a year, it would be better. You cannot do it. But if you want fairness in this thing, you have got to have trained men working all the year round. Why, it is no uncommon thing in an American city for a piece of land to double in value in a year. I have known land in Bronx Borough in the City of New York to be sold three times in one year for eight thousand, sixteen thousand and twenty-eight thousand dollars, and they criticise the Tax Department because we assess it for ten thousand. You have to meet these things. People say many times, "Oh, to assess property at more than its real value! That is terrible." Yes, it is a pity. It is a pity always to assess any property at more than an average; but an average means that there is something above the line as well as below, and there is the advantage of assessing at full value. The man whose property is assessed at one hundred and fifty per cent. of what it will sell for is apt to know it, and he is apt to make an awful noise. I know, because I have had to do with it. During the last seven years I have personally passed probably on over fifty thousand of reductions of the assessed value of real estate, and that is some experience. It is a kind of hospital practice; you get a lot of experience crowded into a comparatively short time. People make a terrible

noise when their property is assessed for more than they think it would sell for, whereas you could go on assessing them for years for fifty per cent. more than the average, if the average were fifty per cent., and they would never know the difference; so that they would be paying fifty per cent. more than they ought to pay. But I have exceeded my proper time, and I will conclude.

This is preeminently the age of efficiency in private business and it is certainly the age of growing appreciation of the necessity for like efficiency in the public business. The time when men engaged in public business were looked down upon is passing, and the time is coming when to be a public servant will always be a title of honor. (*Applause.*)

CHAIRMAN SONNTAG: We have all enjoyed this excellent paper of Mr. Purdy's, who is a man of large experience, and who has come a long way to give us the benefit of it. The next paper on the program is entitled, "Some Features of the Michigan System," by Dr. David Friday, Professor of Political Economy, University of Michigan.

SOME FEATURES OF THE MICHIGAN SYSTEM

PROFESSOR FRIDAY: Mr. President, ladies and gentlemen—Three kinds of taxation are possible in Michigan. First, taxation upon assessment, by the lawful and legal officer, locally elected. This must be made at the uniform rate within the jurisdiction in which the property lies. Second, the assessment on what we call the average rate, the rate determined by dividing the total assessment of all the properties within the state into the full tax levy upon those properties. That is an assessment made by the State Board. Certain classes of public service property must be assessed at that average rate. Third, it is possible in Michigan to assess property at a specific rate, which rate, however, must not be levied upon the value of the property.

During the last twelve years Michigan has made several interesting experiments in taxation, as a result of which some new lessons with respect to what is possible and desirable in the way of tax reform in that state have been learned. It is the purpose of this paper to describe these experiments and to set forth the results and the attendant lessons with the hope that our experience may be valuable as a guide to other states. In 1901 the tax upon gross earnings, which prevailed from 1871 to 1901, was abandoned and

the ad valorem taxation of railroads through valuation and assessment by the state board of assessors was substituted therefor. This board consists of three members who make an annual assessment of the railroads of the state. The rate to be levied upon the railroads is determined by dividing the total assessment of all other property into the entire taxes levied against such property, the result being termed the "average rate."

For example, in 1913, the local assessors in Michigan assessed the general properties of the state at \$2,345,000,000. The total tax levied against that same property amounted to a little over \$50,500,000.00. By dividing \$2,345,000,000.00 into \$50,500,000.00 you get \$21.56 as the rate which our railroads paid upon the assessment placed thereon by the State Board of Assessors.

The consequences flowing from this change in our basis for taxation of railroads form one of the most interesting chapters in the history of Michigan taxation during the last decade.

A second innovation, made at practically the same time, was the provision for and appointment of a state tax commission. The state tax commission consists of three members, these being the same persons who constitute the state board of assessors which assesses the railroads. This commission was given power to review the assessments of the local assessor, either upon complaint of a local taxpayer, or of their own motion. The appointment of this commission with such wide powers was a step in the direction of centralized supervision and control over local assessments. The methods employed by this commission and the results accomplished by it throw important light upon both the desirability of such a commission and upon the proper methods to be pursued and powers to be given it in attaining its ends. In addition to the foregoing reforms, mortgages and other forms of bonded indebtedness have been exempted from taxation and a specific tax of $\frac{1}{2}$ of 1% upon the dollar, to be paid at the time the mortgage is recorded, has been substituted in lieu of all other taxation. The owners of vessel property, too, are permitted in lieu of the general property tax thereon to pay a tonnage tax at a specific rate.

This latter change—the exemption of mortgages and other forms of bonded indebtedness—seems upon the whole to have worked well in Michigan. The only objection thereto that has come to the writer's notice is from some township assessors in rural districts. Here, considerable amounts of mortgages were on the rolls in certain townships and there is some complaint that the elimination

of such property from the rolls has raised the rate of taxation. This objection is of no serious importance. The small number of districts thus affected and the trifling increase in their rate of taxation, because of the exemption of mortgages, makes the objection almost negligible.

We are satisfied with the exemption of mortgages and the substitution for the tax on mortgages of a registry fee of fifty cents a hundred.

One reform which is of particular interest and which warrants further discussion is the assessment and taxation of the railroad, express, car loaning, telegraph and telephone companies on the ad valorem basis—that is, on the basis of their “actual cash value,” as the law puts it.

As stated above, this assessment is to be made by the state board of assessors—a body of three members, together with the Governor; who is *ex-officio* a member of said board. The personnel of this body, is identical with the personnel of the tax commission. We have therefore vested in the same board the obligation to value and assess the railroads and these other public service properties enumerated, and, also, the authority to review the work of the local assessor, for the purpose of making his assessments conform to that part of the law which provides that the assessment of all property—tangible as well as intangible—shall be made at actual cash value. For it is quite evident if they average the rate on railroads, and railroads are assessed at one hundred per cent. of their value, while the other properties of the state were at fifty per cent. then the rate would be too high, and the railroads would pay a disproportionate amount of the taxes in Michigan. Let me add, parenthetically, that we have no county assessors such as you have in Indiana.

We have then, in Michigan, an attempt to apply the general property tax to practically all property with assessment by two different classes of assessing officers. *First*, all property upon the local rolls, either township or state, is assessed by the local assessing officers, locally elected. This assessment is subject to review by a local board and may, also, be reviewed by the state tax commission. We have, *second*, the assessment of the railroads and certain other classes of public service property by the state board of assessors. The assessments of this body are not subject to review by any other board. As was stated above, the rate which is applied to the assessment placed upon the railroads by the state board is determined by the ratio of taxes levied upon all other property to the assessment

thereof, as made by the local assessing officers, and reviewed either by the local board of review, or the state tax commission.

What are the results that have been attained under this general scheme of local administration in the assessment of general property, with a power of review lodged in a central body, the state tax commission?

First, it should be said by way of preliminary statement, that in Michigan, as elsewhere, the burden of taxation has increased rapidly during the last twelve years, not only as expressed in the absolute amount of taxes levied but also as regards the rate on assessed value. In 1901, the total taxes raised in the state were \$23,350,000. In 1906, five years later, they stood at \$26,330,000. This year they stand at \$50,569,000. During the five-year period, 1901-1906, a considerable activity on the part of the tax commission in reviewing the assessments of the local assessors succeeded in actually reducing the average rate of taxation from \$17.49 per thousand to \$16.47 per thousand. In 1913 the total taxes raised on the general properties amounted to \$50,569,000 and the average rate was \$21.56. Let us keep in mind that this is the rate which was applied to the assessment placed upon the railroads of the state, as compared with \$16.47 per thousand in 1906. The assessment of the railroads is at just as high a per cent. of cash value as it was at that time, that is, probably, full cash value.

By 1906, two facts were evident: *First*, that the interference with local government occasioned by the reviews of the state tax commission was being resented, for the legislature of that year decidedly curtailed the power of the commission by taking from them the right to initiate reviews of their own motion and allowing them to review only upon the complaint of taxpayers, resident in the local jurisdiction. It had further become evident that the general properties of the state were assessed by the local assessor at a figure decidedly below their actual cash value, as provided by law, and that, in consequence, the average rate borne by the railroads was higher in proportion than that borne by the general properties throughout the state. The legislature provided, therefore, that the tax commission should estimate the percentage of cash value at which the property throughout the state was actually assessed and should reduce the average rate proportionately for the purpose of railway taxation. To illustrate: If it were found that the ratio of assessment to actual value throughout the state was 70 per cent. and the average rate, obtained by dividing the

total assessment into the total taxes, was \$16.47 per thousand, then the rate to be levied upon the railroads should be 70 per cent. of \$16.47 or \$11.53 per thousand.

The purpose of this law is evident. It was felt that the railroads, after the Cooley-Adams appraisal, as it is commonly called, had been assessed at approximately their full value. The theory of the law was clearly that railroads should bear the same burden, dollar for dollar, as other property bore on the average. Clearly, then, it was necessary to reduce the average rate as shown by the local tax rolls by the per cent. of under-assessment found upon such local rates. This law, however, permitting the Tax Commission to so reduce it, was declared unconstitutional by the Supreme Court of the State, and from 1906 to 1913, the railroads have continued to be assessed at approximately their full value, while the average rate has risen from \$16.47 per thousand in 1906 to \$21.56 in 1913, this being the rate that our railroads will pay this year.

It will be asked how we know that the railroads are assessed at their full cash value. Our railroads in Michigan have, upon the average, for the last five years, had left, after paying their taxes, about ten million dollars of profits to be distributed among stockholders and bond holders and to be reinvested in the property. Now, if you purchased the railroads of Michigan at a figure such that the profits made by them would yield you five per cent. on your money, you would pay less than the present assessment of those roads. If you bought them at their assessed value today you would not get, one year with another; five per cent. on your money, if they paid over every cent of earnings in dividends and interest; and surely, in a state like Michigan, five per cent. is as low a rate of capitalization as can possibly be applied to railroad properties in determining their value.

This, then, is one of the striking facts about the Michigan situation today, as it has come to exist under the workings of our general property tax system applied to all property, including the railroads. We have a state with an average assessment for general property of approximately 65 per cent. of actual value as estimated by the tax commission. We have a full cash value assessment of railroads made by a central board, after appraisal. The rate paid by general properties on the 65 per cent. valuation is imposed upon the railroads who are assessed at full value. The original intent of the law evidently was that inasmuch as the state board of assessors was authorized to assess the railroads at full value, they should,

also, have the power to review all properties throughout the state and bring them to full value. Although they were given this power—which was taken away in 1906 and restored in 1911—they have not been able to exercise it in such manner as to carry out the original intent of the law, and do justice to railroads and other public service property.

This points to a serious weakness in the particular method of central supervision of local assessments, provided by the Michigan system. The various tax commissions which have held office since the original creation of the body have without doubt been most desirous of insuring that the railroads be justly dealt with under the present system, but the mere power of review even on their own initiative does not seem to be adequate to make it possible for the commission to accomplish its purpose. This is of importance for any state desiring to establish an effective tax commission, or give the tax commission already established effective powers. It is patent to all who are conversant with the situation in Michigan today, that while the railroads are paying \$21.56 per thousand on their full value, other properties throughout the state are paying only 65 per cent. of this rate, or \$14.00 per thousand on their full value. It is interesting to compare the tax burden borne by our Michigan roads with that of the railroads of the United States as a whole and of neighboring states for the purpose of enforcing the point that Michigan railroads are being discriminated against under the present system.

An examination of the net earnings from operation of all the railroads of the United States, as compared with the taxes paid by them, gives the following results. In 1901, the percentage of taxes to net revenue from operation was 10.22. This percentage dropped in 1902 to 8.92 and, since that time, has gradually increased until in 1911, the last date at which figures were available, it stood at 12.36. Taking an average for these eleven years, we obtain 10.30 as the per cent. of taxes to total net revenue from operation for the railroads of the entire country. It should be borne in mind that "net earnings from operation" represents earnings before any taxes or fixed charges in the way of interest on bonds have been deducted. If we compare with this the results from Michigan, we find that in Michigan the per cent. of taxes to net revenue from operation ranges from 26.99, approximately 27, per cent. to 35.16 per cent.—the lowest per cent. being in the year 1906 and the highest in the year 1911. For the eleven years,

1902-1912, the average percentage of taxes to net revenue is approximately 30 per cent. The conclusion would seem to be then that taking the per cent. of tax to net earnings from operation as a basis of comparison, the railroads of Michigan are bearing three times the tax burden that is being borne by other railroads in this country.

Again, if, for the roads owned and operated in Michigan, we compare the sections *within* Michigan with the *entire* line,—for example that section of the Lake Shore and Michigan Southern operating within Michigan with the other sections of the road,—the results are as follows. For the years 1909, 1910, and 1911, the railroads of Michigan paid respectively 29 per cent., 24 per cent. and 35 per cent. of their total net revenue in taxes. If we take the entire system that operates either in part or in whole in Michigan, we find the per cent. of taxes to total net revenue from operation to be 12.85, 12.58, 15.49 respectively for the years 1909 to 1911. The burden in Michigan then is more than twice as heavy as it is in the neighboring states through which roads operate that are also operating in Michigan. Putting these facts in a slightly different way, we find that the per cent. of total net revenue from operation in Michigan to total net revenue of the entire line is upon the average 16 per cent., while the per cent. of taxes paid in Michigan to total taxes paid by such lines is 35 per cent. There can be no question, therefore, that our method of taxing railroads, as above described, has led to the imposition of a much heavier burden upon Michigan railroads than upon those in neighboring states. Similar results are obtained by comparing the percent of tax to gross revenue with the percentage that is paid in such states as Minnesota, which have a gross revenue tax. The percent of tax to gross revenue in Michigan has been for the last 11 years more than 6 per cent., in Minnesota for the greater portion of that period, it was 4 per cent. It has now been increased to 5 per cent. If we examine the rate borne by railroads in Wisconsin, which state has also a system of assessment and taxation on the ad valorem basis, administered by a tax commission, we find that there the rate for railroads has remained steadily at a trifle over \$11.00, whereas in Michigan, it has increased from \$16.55 to \$21.56. The general conclusion stated above, that our new system of taxing railroads has failed to do justice to these public service properties is supported by the facts.

The facts which have just been recited are shown in detail by the following tables:

MICHIGAN

Year Ending June 30th.	Gross Earnings from Operation.	Operating Expenses.	Net Earnings from Operation.	Net Earnings Less Taxes.	Assessed Valuation.	Tax Levied.	Per Ct. of Tax to Gross.	Per Ct. of Tax to Net.
1902....	\$45,820,215	\$35,510,219	\$10,309,996	\$8,826,060	\$198,641,000	\$3,288,162	7.17	31.90
1903....	51,559,605	40,588,230	10,971,375	7,683,213	222,106,000	3,756,149	7.28	34.24
1904....	51,715,342	41,615,736	10,099,606	6,343,457	196,795,000	3,330,350	6.44	32.97
1905....	54,741,979	44,549,709	10,192,270	6,861,920	202,651,000	3,527,059	6.44	34.60
1906....	60,458,895	47,824,590	12,634,305	9,107,246	207,068,000	3,409,915	5.64	26.99
1907....	66,259,937	53,981,051	12,278,886	8,868,971	207,130,500	3,650,132	5.51	29.75
1908....	63,235,347	50,007,804	13,227,543	9,577,411	207,305,000	3,713,155	5.87	28.07
1909....	63,667,477	48,646,151	15,021,326	11,288,171	211,764,500	4,377,871	6.88	29.14
1910....	72,025,499	53,839,115	18,186,384	13,808,513	211,716,000	4,346,841	6.03	23.90
1911....	71,972,549	59,535,960	12,436,589	8,089,748	211,075,500	4,372,145	6.07	35.16
1912....	76,097,686	61,192,823	14,904,863	10,532,718	210,884,500	4,387,019	5.76	29.44
1913....	.....	.....	.....	.....	218,246,500	*4,705,000	.....	.....

*Approximate.

RAILWAYS IN THE UNITED STATES, CONSIDERED AS A SYSTEM

Year.	Total Net Revenue from Operation.	Taxes.	Per Cent of Taxes to Total Net Revenue from Operation.
1901.....	\$558,128,767	\$56,944,372	10.22
1902.....	610,131,520	54,465,437	8.92
1903.....	643,308,055	57,849,569	8.99
1904.....	636,277,838	61,696,354	9.69
1905.....	691,880,254	63,474,679	9.17
1906.....	788,887,896	74,785,615	9.47
1907.....	840,589,764	80,312,375	9.55
1908.....	724,258,113	84,555,146	11.67
1909.....	819,234,128	90,529,014	11.05
1910.....	928,037,002	103,795,701	11.18
1911.....	876,103,870	108,309,512	12.36
Total.....	\$8,116,837,207	\$836,717,774	10.30

ROADS OWNED AND OPERATED IN MICHIGAN

Year.	MICHIGAN SECTION.			ENTIRE LINE.			Per Cent of Total Net Revenue from Operation in Michigan to Total Net Revenue on Entire Line.	Per Cent of Michigan Taxes to Total Taxes.
	Total Net Revenue from Operation.	Taxes.	Per Cent of Taxes to Total Net Revenue from Operation.	Total Net Revenue from Operation.	Taxes.	Per Cent of Taxes to Total Net Revenue from Operation.		
1909.....	\$15,021,326	\$4,377,871	29.14	\$91,238,505	\$11,732,060	12.85	16.47	37.31
1910.....	18,186,384	4,346,841	23.90	100,064,942	12,589,590	12.58	18.14	34.52
1911.....	12,436,589	4,372,145	35.15	85,607,463	13,262,067	15.49	14.52	32.96
Total.....	\$45,644,299	\$13,096,857	28.69	\$276,910,910	\$37,583,717	13.57	.....	.....

The existence of the facts above cited led the legislature to provide in 1911 for the appointment of a special commission to inquire into taxation, consisting of three members, for the purpose of reviewing, investigating and inquiring into the entire system of taxation in the state of Michigan. A strong suspicion that the powers given the Tax Commission did not secure justice for the railroads, was one of the reasons for the appointment of this body. This commission, contrary to the procedure of most other special commissions that we have had, did not examine so much into the question of the geographical distribution of the state taxes.

This commission was to submit its findings in a report to the Governor. After nearly a year's work spent in investigating the situation in the state, the commission made a report which throws considerable light upon the reasons for the excessive taxation of railroads and upon the general reasons for under-assessment of property throughout the state. The findings of the commission are shown in compact manner by the following statement of results from their report.

“After the most full and careful investigation which the time allotted for the Commission's work would permit, one most important fact was disclosed. The fact is the gross under-valuation and under-taxation of the property of corporations assessed and taxed under the general tax law as compared with all other property of the state. Viewed from any standpoint, whether it be from that of reference to corporate property in general or with respect to the valuation of distinct properties and the comparison of their values with the assessed values and taxes paid, the same result is disclosed, namely: That corporate property assessed under the general tax law is very generally and almost uniformly valued and taxed at a small fraction of its worth. This claim is substantiated by the following table. It gives the rate of taxes per thousand of actual value for farms, banks, residences, railroads, manufacturing corporations, public service corporations and mines. It also gives a comparison of the value and taxes paid by each of these classes except residences:

Kind of Property and Basis of Computation.	Value.	Tax.	Rate Per \$1,000.
City Real Estate— Examination of verified sales, 38,000 pieces in 90 cities. Taxes at actual rate for each locality. Rate ranges from \$11.22 in Benton Harbor to \$25.80 in Cheboygan....			\$14.85
Farms— Census reports, also examination of over 32,000 descriptions.....	\$1,000,000,000	\$10,000,000	10 00
Banks and Trust Companies— Reports to Banking Commissioner and Comptroller of Currency. Basis, net earnings, also capital, surplus and undivided profits.	75,000,000	1,250,000	17.00
Railroads— State Board of Assessors, 1909.....	212,000,000	4,378,000	20.65
Sleeping Car, Express, Car Loaning and Telephone and Telegraph Companies— State Board of Assessors, 1909.....	24,000,000	493,000	20.67
Manufactures— Reports to United States Commissioner of Internal Revenue; also census reports showing taxes paid.....	750,000,000	3,933,000	5.30
Mines— Finlay report, with an amount added to cover properties not included therein. Taxes computed from reports of supervisors to Tax Commission, at actual rates in the several districts.....	250,000,000	*1,750,000	7.00
Electric Railway, Power, Heat, Light and Gas Companies— Reports to United States Commissioner of Internal Revenue and Michigan Railroad Commission. Taxes paid by gas companies from United States Census report..	130,000,000	900,000	7 00

*Previous to Finlay appraisal.

It will be observed that this statement of results says nothing with respect to the relative burden borne by different counties on account of the state tax, which in Michigan is spread as a supertax in addition to the local rate. This is significant. An examination of the ratio of state taxes to total taxes in our state shows that state taxes are on the average not more than 15 per cent. of all taxes levied. Whatever inequality there may be as between counties on account of an improper equalization of the state tax among them must be very trifling, as compared with inequalities arising out of the improper apportionment of the remaining 85 per cent. through unequal assessments in the local jurisdiction. In Michigan, as elsewhere in our states, the state tax is a very small amount of all the taxes imposed. The amount of purely local taxes in the city of Detroit exceeds by 25 per cent. the total state tax for the State of Michigan. Out of the fifty million dollars raised in the state this year, twenty-five million were school and general city taxes. In addition to this, six million dollars is collected from the railroads and other public service corporations which is distributed to the local school districts by the state and should really be added to this twenty-five million to give an adequate idea of the prepon-

derance of local taxes in the modern budget. The overwhelming preponderance of local expenditure, when once it is realized, shows conclusively that no great relief as regards inequality in taxation can be expected through separation of sources for state and local taxation. An examination of the findings just cited discloses the fact that the greatest inequalities exist within the local jurisdiction as between the different classes of property there assessed by the locally elected officer. The conclusion from which one cannot escape after examining the facts cited by this commission—and these facts have not been successfully controverted—is that the attempt to administer the general property tax through locally elected officers, responsible only to a local constituency, has been a miserable failure. In the city of Detroit, as well as in our other cities which contain large public service corporations and manufacturing plants, it is not an uncommon occurrence to find plants that are assessed at from ten to twenty per cent. of the value shown by their own balance sheets. The railroads and some other public service properties assessed by the board of assessors, a body appointed by and responsible to the Governor of the state, are effectively assessed. The properties of the state assessed by local assessors are assessed at anywhere from ten to seventy per cent. of cash value in the same jurisdiction.

The causes for the under-assessment, especially of manufacturing and public service properties, are not far to seek. First, the ordinary local assessor with a limited experience and limited knowledge of corporate affairs lacks the ability to arrive at a fair and full value of great industrial establishments. A considerable degree of special knowledge with respect to the conditions of the particular business is required to make an adequate evaluation for any purpose. This the local assessor usually lacks. A humorous incident that has come to the writer's notice recently is that of a local assessor who assessed the contents of the buildings of one of our electric power companies, consisting of sixteen oil transformers, worth approximately \$500,000, as "sixteen second-hand boilers at \$500 each, total \$8,000. Evidently, this man's technical knowledge was not adequate to place an intelligent valuation upon the piece of property under discussion.

When the state board of assessors was called upon to assess the railroads, their inability to put an intelligent valuation upon these properties led them to avail themselves of the services of expert engineers and statisticians. Although the work of these men has been the subject of some considerable criticism by the

railroads and others, their valuation was probably adequate to do substantial justice, if other properties throughout the state had been as carefully evaluated and assessed. This lack of special knowledge on the part of the local assessor is an insuperable obstacle to adequate assessments of most of our manufacturing and public service property.

Even if the local assessor were capable of making an adequate valuation for purposes of assessment, the mere fact that he is locally elected makes him subject to local influences which seemingly make it inexpedient for him to place fair values upon many classes of property. The tendency of municipalities to accord to manufacturing corporations partial exemption from taxation as an inducement to settle within their limits, is too well known to need more than passing mention. It seems pretty clear from our Michigan experience,—and our Michigan experience has not been different from that of most states,—that the local assessor cannot, unaided, efficiently assess certain classes of property. Uniformity of assessments, either within the same assessing districts, or as between the different assessing districts of the state, will not be attained under this system.

But what, it will be asked, has your state tax commission been doing in face of all these facts? Our commission, aside from assessing the railroads and other classes of property which come under its jurisdiction in its capacity of state board of assessors, has, since the restoration of its powers in 1911, constituted itself a re-assessing board. It has selected those counties from which complaints have been made to the commission, as well as other counties in which it has observed extreme under-assessment of property, for invasion by a corps of fieldmen of experience and capacity as assessors and has re-assessed such counties. This method of procedure together with the growth of property in the state has added \$500,000,000 of property to our rolls within the last two years, increasing the total assessment by 38 per cent. So rapid has been the increase of expenditure, however, that the average rate has risen within this same period from \$20.71 in 1911 to \$21.56 in 1913. At the present rate of progress, it will take the commission some ten years to re-assess the entire state and I, for one, have but small hope for the effectiveness of a review which shall occur only once in a decade. Mr. Purdy says even an assessment once in four years is no assessment, and certainly an assessment once in ten years is not.

The present commission is inaugurating the policy of offering

its services or the services of its field men to the local assessing officers who desire such services. They have no power to force these men upon the local officers nor have they power to remove any local assessor who is known wilfully to undervalue his property in violation of law. Whether the local assessors will avail themselves of this offer of the tax commission remains to be seen.

We are, in Michigan, still making the ridiculous attempt to assess personal property, including money and credits,—the only exception being that of the exemption of mortgages, above enumerated. At present, about 20 per cent. of all property upon the rolls is personal property. It is difficult to say just what proportion of this consists of money and credits. An examination made several years ago by the state tax commission upon this point showed that at that time only $2\frac{1}{2}$ per cent. of the total assessments of the state consisted of money and credits, nor have the efforts of the tax commission availed to increase this percentage materially within the last ten years.

The experience of Michigan for the last decade yields the following lessons:

1. The administration of the general property tax by locally elected officers is a failure as regards the attainment of equality between the various classes of property in the same jurisdiction. Where, as in Michigan, one class of property is assessed adequately by a central board and the average rate levied upon other properties is applied to the property assessed, there is certain to be injustice as regards the rate paid by the property assessed at full value.

2. The power of review on the part of a state tax commission without direct control of the local assessor, either through appointment or otherwise, is not adequate to secure uniform assessments throughout the state.

3. The separation of the sources of state and local revenues is inadequate to remove the more glaring inequalities in tax burden, because these are found in the local jurisdiction.

4. The attempt to assess personal property,—especially, money and credits,—has failed utterly and this form of property should either be placed in a separate class and taxed at a special rate, or else should be abandoned altogether and an income tax substituted therefor. (*Applause.*)

CHAIRMAN SONNTAG: Gentlemen, we have heard a most excellent paper from Dr. Friday, following a most excellent paper by

Mr. Purdy, and now we are to hear another from a gentleman from New York. The next paper is entitled "Taxation of the Unearned Increment," by Joseph French Johnson, Dean of the School of Commerce, New York University.

TAXATION OF THE UNEARNED INCREMENT

DR. JOHNSON: Mr. Chairman and gentlemen and ladies—I have a confession to make in the first place, that I am in the a, b, c, class in taxation, and will not endeavor to find any fault with Mr. Purdy. If he does not skin me on the way back to New York I shall be thankful, for when a man talks extemporaneously upon a subject that he does not know anything about he is very likely to say some things which he regrets having said, if he recalls them the next day.

The only excuse I have for talking before a lot of men who have given a good deal of time to the study of taxation, which I have always found a very disagreeable subject, much more disagreeable than my pet subject, "Money and Banking,"—I took up taxation really because my wife said once that I was in danger of going insane through giving so much time to the money question, and I looked around for something worse and I landed in the single tax rank (*Laughter*); and I want to say to you that the single taxer is abroad in the land. I meet him frequently in New York, and I read of him in Texas, and in the far north of Canada, and I have no doubt that you have met him right here in your midst. He is a persuasive gentleman. I have very many friends who are single taxers, and I love them all—I am not sure that they love me—but the problem of the single taxer, as you all know of course, is to make the landlord, the land owner, contribute a little more towards the support of society than he has been in the habit of doing, or than he wants to do.

Now we have in New York a body of men whom Mr. Purdy alluded to, who are determined that the land shall pay the larger portion of the taxes, or assume a larger part of the tax burden. I happen to have with me some of their hand bills, with which they are converting the town. This one is issued by "The New York Congestion Committee." It proposes that the tax rate on buildings in the City of New York shall be reduced gradually in the course of five years until the rate on buildings shall be only one-half the rate on land, and that they estimate at the present rate, which is \$1.83. They estimate that when the thing is complete the land will be taxed at the rate of \$2.25, and buildings at \$1.12½. And that is

advocated by this body of gentlemen who have organized themselves into a society called "The New York Congestion Committee," to reduce congestion, because if the tax on buildings is reduced, naturally it will cost less to put up buildings, and more buildings will be erected, and the buildings will have larger rooms and rent will be lower, and the cost of living will go down and everybody will be happier.

The next pamphlet, or handbill, is gotten out by some gentlemen who have associated themselves together in an organization which they call "The Business Men's Association to Untax Industry." Now it is barbarous, of course, to tax industry, but in New York City the building industry is the one which is most heavily taxed. Some others bear a very light proportion of the taxes. The idea is to untax industry, so as to encourage and increase the demand for labor and cause a rise in wages.

Now here is a handbill, "Six Reasons Why," by the same gentlemen who have associated themselves here in another society, into a society called "A Society to Lower Rents and Reduce Taxes on Homes."

There are, I presume, some others here, but I will not take the time to give you any more of their names. I haven't any doubt that you will hear of them in the State of Indiana. They propose to make the landowner pay a larger share, a larger tax, on account of the fact that he is the recipient of something which he has not earned and is not entitled to. I haven't any doubt the agitation will reach the City of Bloomington before you are many years older. I am not going to discuss that particular argument or propaganda in detail. I will simply put my finger on the words which are made the most of in New York, namely, that the proposed reduction of tax on buildings will encourage building, and so lower rents, and hence lower part of the tax which is borne by the plain people when they pay rent.

Now I don't know any reason why I should not pay tax, although I own no land. I enjoy the privileges of New York City, and when I come to Bloomington even to live, even though I own no land, I should enjoy the privileges of this municipality, and why should I not pay my share? Now the share is determined unconsciously for the individual by the tax that is paid for the room, for the house that he occupies. In other words, the poor man—and anybody that gets less than three thousand dollars a year, according to Congress, is a poor man, and does not have to pay any income

tax, although he is paying income tax without knowing it, as a rule; and of course that is the nicest sort of a tax to pay, one that you pay unconsciously—is paying it when he pays rent, for if you are paying rent in New York City, sixty dollars a month, you are undoubtedly paying taxes, forty, fifty or possibly sixty dollars, for some people estimate that one month's rent is about sufficient to cover the building tax. Why should you not pay it? That has not been pointed out to me by the single taxers.

Will it reduce congestion, this proposition, in New York City? I do not suppose that is bothering anybody in the State of Indiana. I took a walk around Indianapolis today, but I did not discover any very great signs of congestion. It seems to me as if it would produce congestion, that it would induce the erection of high buildings; give a stimulus to skyscraping which is now lacking; and my conclusion seems to be borne out by the experience of Houston, Texas, which has adopted it. It has been in practice there for two or three years, and the mayor of Houston boasts that Houston has more skyscrapers than any other city of the same population in the United States.

Now we New Yorkers do not want to live in a town that has a lot of skyscrapers. We have too many of them. We don't want any more erected.

The stimulus to building undoubtedly would be given, for there would be a stimulus to building during the first year or two, or perhaps three, while the tax was being put in operation, but after that period we would have simply the same normal increase in population, the same demand or increase in demand for building, and the same amount of building as before the change had taken place.

Would it reduce speculation in land, which is an argument made in favor of it? No, it would simply give land a new level of value. I think it would give land a lower level of value, because the higher the tax on land naturally the less income to the land owner, and the lower the market value of the land. So we would have speculation down on a lower level; but speculation attaches to anything where there is a prospect of change or chance, and you would have the same prospect of change and chance. The unearned increment would attach to land after this building tax had been levied just as it does now.

By the way, what do we mean by unearned increment? I have not been able to find that out yet. I often have wondered whether

we earn our salaries. Mine is not very large, but I know I do not work as hard as some fellows who don't get paid half as much as I do. And if a man buys railroad stocks and they go up, as they have been going up in the last few weeks, is not that unearned increment? Or, is he getting a reward for the exercise of sound judgment? Or if he happens to have laid in last summer an extra large stock of linen dusters and straw hats, and along comes this open winter, the birds begin to carol and the flowers come up in February and there is great demand all of a sudden for spring hats and linen dusters, and he is the only man in town that has got them, he makes an unearned increment. You know well enough that men in business are always doing that. Business would not be any fun at all if there was no unearned increment in it. It is so in all branches of it, but the single taxer picks out the poor fellow who owns land as the miserable fellow who is getting fat off the unearned increment, and says he ought to be made an example of as an enemy of society.

Well, I was appointed by Mayor Gaynor a member of the Commission to hunt up some more money than Mr. Purdy could find by assessing the real estate. They called us a Commission on New Sources of Revenue. It was appointed three or four years ago. We got together and we worked hard. We tried first the idea of levying an occupation tax. That is in vogue in Canada, and it is curious how people go to other countries for things that they think are better than the things at home. I have no doubt you people in Indiana think we have got something down in New York that would be worth your while if you could only come down there and get to understand it and steal it from us. I assure you we have not. We have got the worst of any place in the world, from all points of view. We have however the very best tax assessment system of any country in the world, and the best—well, I will not say anything more about Mr. Purdy, but if they were all like him—

We did not like the idea of taxing business in proportion to the amount of space it occupied. That is called a business occupation tax. It would have driven Manhattan over into Hoboken and Jersey City, and we didn't care to propose any legislation for the benefit of our neighboring states. So we stopped discussing that as being out of the question.

Then we took up a proposition which I liked, and which I fought for, but I could not convince the other members of the Commission—who were practical men—that I was right.

It was the proposition to tax those rich fellows of New York who pay seven, eight, nine and ten thousand, and God knows how many thousand dollars a year rent for apartments. Think of it! I used to live in Illinois, and I know what I thought when I first heard of a man who paid ten thousand dollars a year for a few rooms just to sleep and wash in. (*Laughter.*)

Now I was just enough of a country boy to think that those fellows ought to pay a little extra tax. That is called the habitation tax. We proposed that we would levy a graduated habitation tax, beginning at two per cent., say, if the rent was two thousand dollars a year, three per cent. if the man paid three thousand, four per cent. if he paid four thousand and five per cent. if he paid five thousand a year. That is, if a man was able to pay five thousand dollars a year rent, or live in a house that could be rented at five thousand dollars a year, then he should pay a habitation tax of five per cent., which would be two hundred and fifty dollars. I could not get that through because they were afraid, the other members of the Commission. Some of them paid rent like that, by the way. (*Laughter.*) I didn't, and I didn't get down low enough to touch myself. (*Laughter.*) So, the advantage of that would be that it would all fall on the very well to do, and would lighten the burden for us poor fellows down in the lower part of the town and in the slums and tenement houses; and it would make the general tax rate lighter by calling for the heavier contribution from the very well-to-do.

I could not get it through because they said, "Well, the automobiles are so cheap now, and so handy and convenient, that these rich fellows will not live in town any more at all; they will go up into Westchester County and have country houses, and we will lose everything, and we will not even have their trade; and we have lost some distinguished citizens from New York City already as a result of our miserable tax system." And so I yielded.

Well, we had to come down to something else. We had got after the fellow that owned the land. Now I didn't like the idea of introducing a single tax in New York. This idea of reducing the tax on building, which I have described to you briefly—I haven't done the argument for it justice, nor the argument against it justice—I didn't like that. None of us liked that, because it didn't promise an increase in the revenue. It did promise, probably, almost certainly in my judgment, a derangement or readjustment of the values of realty, of land values in New York City, which

might cause a real estate panic and a lot of foreclosures of mortgages, which at the present time it is highly desirable to avoid, for reasons that I will not attempt to describe to you.

But we had an idea that there was a way of getting at the unearned increment which was being tried in Germany and in England, namely, a tax on the unearned increment itself. In Germany and in England the tax is levied on the real estate or the land when it is sold, or when it changes hands, and is in proportion to the number of years which have elapsed since the last transfer, and in proportion also to the amount of increase. It is a double ratio which has to be taken into account in the computation of the tax, both in Germany and in England.

That system has been adopted over there for the reason that their system is different from ours. Their taxes are levied upon the rental values of the property, whereas we levy ours upon the assessed capitalized value. If the property is rented and is yielding no rental, the assessor determines what rental it would yield if the owner did utilize it, exploit it. That is the case in Germany and in England. In other words, we are much harder on the land owner here, harder on the owner of unoccupied, un-utilized, idle and vacant land, than they are in the old world. Particularly is that true in New York City since the effort has been made to tax all land at its market value.

We decided that that was rather a German or English way of doing things, and was too clumsy for New York City. We could not adopt that sort of a tax because it would yield an irregular revenue. We could not figure on it in the budget. So we decided that since we had a tolerably honest assessment for New York City—I put that word tolerably in, thinking about the old Judge whom the darkey asked to recommend him, and the darkey had his recommendation already written out saying “I know him to be an honest man,” and the Judge wrote in the word “tolerably,” making it read, “I know him to be a tolerably honest man” (*Laughter*)—so, having a fairly good assessment in New York we decided to recommend the tax on the increase in land values. That it would be practicable to have that in that city. For that matter, other American cities defend a tax upon the increase in land values, which people have a habit of calling unearned—although I am not myself so sure that a good deal of it is not earned. But the tax we agreed upon, to recommend, was a tax of one per cent. on the increase, if it was not the result of expenditures by the owner.

Now, if you owned a piece of land that you paid a hundred

thousand dollars for, and a year from now it is assessed at a hundred and ten thousand, and you have spent three thousand dollars in one way or another in improving it, or for special assessments, paving, etc., then the increase, the unearned increment, would be ten thousand less the three thousand dollars, or seven thousand dollars; and you would pay the regular tax on one hundred and ten thousand dollars, say at \$1.83, plus one per cent. on that surplus, that increase, that increment of seven thousand dollars.

If you had spent nothing whatever in that year for the improvement of your land, and it had increased from one hundred thousand to one hundred and ten thousand, then your tax would be \$1.83—that being the New York rate, or one hundred and eighty—on the one hundred and ten thousand, plus one per cent. on the ten thousand.

You see it is a surtax. That sort of a tax, you notice, has the effect of making the tax burden heavier on property which is increasing in value and lighter on property which is stationary or decreasing in value.

Now all American cities have property of that sort. The way our people generally talk about land and real estate, you would think that all land was just going up, and all you had to do was to shut your eyes and buy some real estate and get rich. Go off and Rip Van Winkle for twenty years and come back and have a fortune. A number of men have tried it, and if you talk with men who have tried it you will find that about as many have lost in real estate deals as have won.

So, in New York City there is a lot of property which is assessed, or it ought to be assessed, for less today than it was assessed three or four years ago. It is dead. Business and population have been carried away from it by the subways; and more property will be killed by the development of new sections. That takes place I have no doubt, perhaps less strikingly, in all our American cities.

Now, the advantage in this tax that I am talking about, the advantage that I want to impress upon you, is that it bears not heavily upon those who cannot pay, who cannot carry the burden. It bears with little weight upon those who are fortunate in their investments, and who have been benefited, consequently it encompasses much more thoroughly the ideal aimed at than this special assessment which follows an improvement.

Now when a street railway is put through, or a street is paved, or a subway is built, any improvement made in the city at public expense, it is difficult to tell just how much the property is to

be benefited. It is almost impossible to tell. You know a certain piece will be benefited, but you cannot grade it at the time or in advance; but with this increment tax levied year after year, carefully, the benefit will be paid for beyond all question, by the surtax.

Will this increment tax, if it is adopted, have any serious effect upon land values? I have not been able to figure out that it would cause any depreciation. You see it would not fall upon land which is stationary. It would have no effect upon land which is stationary in value, and no effect upon land which is declining in value, except a beneficial effect.

We found that if the land in New York continued to increase during the next ten years as it had in the last ten years, that is at the rate of one hundred and fifty millions a year—and that does not mean that each piece of land had increased somewhat, but on the average; some having declined, some having advanced, but on the average the net increase was one hundred and fifty million dollars—that then the increment tax would yield one million and a half the first year, three million the second year, four and a half million the third; and you figure on with your arithmetical ratio and you will find you are pretty soon up into thirty, forty and fifty million dollars, coming in from that tax, and not bearing heavily upon any man. Not taking a dollar from a man who is not in a fortunate position and able to pay the tax.

And as the result of the increasing revenue from this tax—the second beneficial result—not only will the state have more money to spend but the general tax rate may—I do not suppose it will—but it may be lowered. I say I do not suppose it will be, because the tendency in the East, and I have no doubt in the West, is for the municipality to assume a wider and wider function, a larger and larger responsibility, and do a lot of things for the people that it has not yet tried to do. However, that is mere speculation with regard to the future.

At any rate the inflow of this fund from unearned increment, from the land which is increasing in value without any effort on the part of the owner, or not because of his expenditure, will enable the city to raise the revenue, the full revenue, by the imposition of a lower general tax rate; so that the tendency of the tax would be to lighten the burden on those who are least able to pay the tax, and make the burden larger on those who are most able to pay. (*Applause.*)

DISCUSSION

CHAIRMAN SONNTAG: Gentlemen, we have listened to three splendid papers. The discussion that is to follow will be led by Dr. J. L. Leonard, Professor of Political Economy in Wabash College.

DR. LEONARD: Mr. President, ladies and gentlemen—In talking over the topic for discussion this evening I am not going to follow any one speaker in line and trace out the strength and weakness of his paper, but I am going to take them rather indiscriminately, and try to mold the whole of them along one given line.

One of the tendencies of the day and the evening has been to take a rap at the so-called assessor, as being the root of all evil, which reminds me of a story which I heard the Honorable Thomas L. Johnson tell in regard to assessors: "that he is usually a poor man, engaged at a salary of twelve or fifteen hundred dollars a year, knows houses of his own kind and can assess them within a few dollars of their true value, but when placed before a magnificent painting in a millionaire's house, the chances are that he cannot estimate its value within fifty thousand dollars."

One of the tendencies of the time is to get away from fixed ideas. We are in a time of change, and we have concluded that the tax system of our fathers will no longer suffice for ourselves. The general tendency for municipalities and cities is to incur indebtedness without any thought of methods of revenue, so when it is found that the revenue no longer suffices for the need of the community, it becomes necessary for them to seek out some new sources. So the tendency has been, mostly, to seek out other methods. Professor Johnson has told you of one method that has been tried but not yet put in use in this country, a tax on the unearned increment. Municipalities have been seeking for taxes upon certain features, special license taxes, vehicle taxes of various kinds, or what not, in the attempt to raise adequate revenue to carry out their fiscal plans. The tendency has further shown itself in change or in the seeking out of other lines.

The agitation of ten or fifteen years ago directed attention largely to railroads. Their attempts at watering stock, and in a good many cases successfully, and their exceedingly large profits pointed them out as being the instrument that ought to be taxed, and in some places it was considered that they ought to be "soaked." All that you have to do is to refer to some of the figures that Professor Friday has given you this evening; how in the case of Mich-

igan they have gone ahead increasing the tax on railroads until now they are bearing a tax equal to about thirty per cent. of their income. It might have been well for Professor Friday to have told us this evening in how far this attempt of Michigan to find an equitable system has been responsible for the bankruptcy of a few of their railroads, the Pere Marquette and other roads that are now in the hands of receivers.

The tendency to seek out these special types of corporations as being legitimate prey for the tax gatherer has led us likewise into the taxation of moneys and credits, or attempts to tax banks. Some have been successful. Some have not.

Among other attempts to find a new method is the attempt made in what is called the secured debt tax, whereby a man can pay the tax on a secured debt once for all, and have it exempted thereafter. It seems a tax of that kind is somewhat of a mistake. There is a tendency for that tax to be adopted in a number of other places, but it seems to me that to free an instrument once for all from taxation means that you are not going to be able to increase or decrease your revenues to meet the conditions of your community.

There is still further a tendency for us to look toward progression as a method of solving increasing demands of municipality and state for further revenue. Progression has not been used in this country to any appreciable extent, not to anywhere near the extent that it has been used abroad. It may be that it will never come to this country; it may be that it will. However, there is considerable agitation along these lines, and the possibility is that the tendency of the time is to have a tax of that nature.

Our tendency, in fact, is to look to Europe to guide us to a large extent in attempting to find other sources. The income tax is an illustration of that tendency. The inheritance tax is an illustration of that tendency. The unearned increment tax is an illustration of that tendency. Professor Johnson has been telling you of the advantages and disadvantages of an unearned increment tax, and he himself seems to be inclined to think that it is a pretty good thing, and that it is rather just.

“Increase the tax on land. Give us more revenue,” is the cry. Will that work justice or injustice? The possibilities are that in quite a few cases it will be an injustice, for the fact that land increases in value does not mean that the man who owns that land is going to be one whit more able to pay any additional levies or assessments upon it. Take the average man owning and holding

property on the edge of a town. The valuation of that property is not its present physical value on its terms of present income, but the valuation of that particular piece of land is based on the anticipations of the future; so that any attempt to levy an assessment upon that land for the purpose of finding its increment is liable to be very misleading. For on the same basis, under the same conditions, the tendency may be for the town to suddenly swing over in another direction, and instead of growing south, grow west, and the man who had anticipations in the south sees them fall flat. He has been holding it, and it has been rising in value, on the hope and anticipation of a future return. When the time comes when he has expected to realize, he finds it is absolutely impossible to secure his price. Under such conditions as that an unearned increment tax cannot work.

Professor Johnson has stated that the tax can be easily estimated. It is hard to say whether it can or cannot. When the land is to be found in small parcels, and the real estate tradings and activities are quite frequent, there is perhaps but little difficulty in estimating very closely the probable changes in value; but when the movement of real estate is slow, then there comes difficulty, and the attempt might meet with only average success. You might do as much injustice as justice.

The tendency has been to state that the levying of a tax of this kind will tend to reduce other taxes. Professor Johnson stated that that might or might not be true. I doubt if it can ever be true, for the general tendency of the expenses of government of municipalities and states has been progressive, while the increases of property have been proportional; and again I refer you to Professor Friday's paper on the statistics where he covered the increased valuation of properties in his state and the percentage increase of the tax rate.

Again it is difficult to say who, under the unearned increment basis, is responsible for that increase of land values. Under the idea of the unearned increment, society is supposed to be responsible for the increase. Society is supposed to be the people who move in. Now sometimes that movement is stimulated. Then we can see that no other person can justly claim the gain from that land and its increased value than the speculator who induces people to come in and take it up. The man who has been telling us about southwestern Canada and western Canada, who has been telling of the abundant opportunity the man has there to acquire

a homestead and to earn a good living, has been a speculator inducing people to come there; and it is altogether due to his own efforts and the efforts of that class of people that lands up there have been given their fictitious value.

As it happens in the case of those western cities, we likewise see the other tendency which is perhaps somewhat the single tax and somewhat the unearned increment idea—that is tax the land and remove the tax on buildings.

As the expenses of communities increase how is it that they are going to secure additional revenue to operate? The land has perhaps increased up to a stationary point. The land owner cannot afford to pay any further tax, and he is the man who is going to most seriously object to the proposition that this man who owns a building shall go absolutely scot free of any payments whatever.

No doubt this method of exempting buildings and taxing land is very good from an advertising standpoint, and that is all Houston is doing it for. Pittsburgh and Scranton are using it as an experiment, and it will be a mighty risky one; I can almost guarantee failure for those experiments on the basis of human nature alone. Men are not going to stand by and see somebody else free from the taxation to which they are subject.

Among other tendencies in our general system of taxation we see the attempts to centralize. The attempts to centralize may be well directed and they may be misdirected. For misdirected efforts we have Professor Friday's account of the attempts that the Michigan Commission has made, the attempt it has made to make an equitable levy upon all classes or types. There is no doubt about it that we need more centralized power in taxing authority, and wider power; and there is no doubt that the tendency is and the feeling is that there must be a complete and thorough revision of all the laws on the subject of taxation. I thank you. (*Applause.*)

[The Committee on Organization, through Mr. E. I. Lewis, then presented the following report, which was adopted:]

REPORT OF THE COMMITTEE ON ORGANIZATION

Your Committee on the Organization of a State Tax Association makes the following recommendations:

First, That a State Tax Association be organized for the investigation of taxation questions.

Second, That the co-operation of the Extension Division of the Indiana University and the State Board of Tax Commissioners be

invited in the study of taxation in Indiana and in the dissemination of correct information on the subject.

Third, That the Association be called the Indiana Tax Association.

Fourth, That the officers of the Association for the ensuing year be a President, three Vice-Presidents, Secretary and Treasurer, who shall constitute the Executive Committee.

Fifth, That the Executive Committee shall formulate a constitution and necessary by-laws, which shall be the constitution and by-laws of this Association until the close of the next convention. The Executive Committee shall fix the basis of membership and the basis of representation in the next convention, for voting purposes.

Sixth, That the cooperation of the Extension Division of Indiana University and of the State Board of Tax Commissioners be invited in the call of the next convention.

[Following the adoption of the above report, a nominating committee was appointed, consisting of Mr. Ernest I. Lewis, chairman, Mr. Charles Remy, and Mr. Earl Mushlitz, all of Indianapolis, to report at the session next morning.]

FRIDAY, FEBRUARY 6, MORNING SESSION

The conference met at 9:30 a. m. pursuant to adjournment, Mr. Charles F. Remy, of Indianapolis, presiding.

CHAIRMAN REMY: Gentlemen, if we are to get through with the program for this forenoon at twelve o'clock, as we are asked to do, there is no time for speech making on the part of the presiding officer this morning, and we will proceed promptly to the order of business. The first thing in order is an address by Dr. Thomas S. Adams, member of the Wisconsin Tax Commission, on the subject of "The Appointment and Supervision of Local Assessors."

THE APPOINTMENT AND SUPERVISION OF LOCAL ASSESSORS

DR. ADAMS: Mr. Chairman and gentlemen—When I think about the question of tax reform I am always tempted to paraphrase a familiar aphorism of the last presidential campaign and say that the American people, before this difficult problem of tax reform, resemble nothing so much as a large flabby personality

surrounded by interests which know exactly what they want. The problem is not so much obscure, and its solution does not call so much for knowledge of what ought to be done, as it does for an exercise of the will power and energy to get what we know we ought to have. The trouble is not ignorance. We know well enough what we want.

We know, first, (what is secondary in importance) that there are a certain number of laws that need to be repealed. We know that part of our trouble arises from solemn legislative attempts to do things which cannot be done and ought not to be done. We need to do away with some old laws and enact a few new ones, in most places. And yet the legislative aspect is of secondary importance. The matter of primary importance is the improvement of assessment work.

In the State of Wisconsin we will collect this year taxes approximating fifty million dollars. Of that sum something between forty-one and forty-two million dollars represents property taxes collected on the basis of assessments made by the much abused and much maligned local assessor. Compared with anything else in the system of state and local finance this man, the local assessor, and his work, loom up as of surpassing importance. Tax commissioners go about and lecture, and county supervisors advise and revise, deliberative assemblies meet and discuss, but when all is done, the man of real importance, the pivot, the key of the whole performance, is the local assessor. Everything comes back to his work.

And I wish to digress enough to point out that the work which these men do is difficult work. We have got into the habit, particularly with respect to real estate, of speaking about this work as if it could be done by any well disposed gentleman who will display a reasonable amount of care, thought and industry. It is true that a reasonable amount of care and thought and industry would improve the situation in most jurisdictions at the present time, but that is not all that is necessary.

The truth of this matter is that the work of assessment, or the work of the ordinary real estate assessor, is difficult work. It is work that requires a bona fide expert. You cannot play with it. I am reminded of that every day. Practically every day in my office at the present time I am called upon to work over both property assessments and income assessments, and as a matter of fact I would much rather tackle an income assessment than I would to take up the question of the property valuation of city real

estate. In the one task you have some entries on books. You have got a course of business. You have got specific data to go by; and while the determination of income, like the determination of the value of a piece of property, involves a certain amount of estimate, the estimate moves within narrower limits in the income assessment than it does in the property assessment.

What I have said is something in the nature of a digression. The point I make is that assessment work is difficult work, that it requires training and thought, and particularly experience. You cannot expect an unprepared, untrained man to do this. I do not care how well informed a man may be, he cannot jump in and assess a city or a village or even an ordinary township without preparation, and without something in the nature of a system, and particularly without common sense and backbone.

We know what we want. First of all we must select men with common sense, industry, and judgment. Then when we get such men we must keep them at their work long enough to acquire experience, so that they may really get to know their district, to know values, and to know the law. It will take a year for the ordinary assessor to master the law of taxation, to say nothing about the intricacies of appraisalment.

Then after we get a good man and he acquires the requisite experience, we must pay him enough to keep him from resigning. A real assessor ought to become an exceedingly valuable person in a short time. His services ought to be greatly in demand. If you want to keep him you must pay him. And finally, you have got to protect him from the class of people who make the ordinary assessor's life a burden. You have got to protect him against the interested business men. You have got to protect him against political influences, and against the disgruntled taxpayer. You have got to protect him against the little waves of irritation that inevitably arise everywhere when an honest man performs honestly and efficiently this more or less disagreeable work of assessment. The tax assessor cannot, in the nature of things, be a popular idol, and obviously, he must be protected.

If this analysis of this situation is correct, I personally think we ought to select assessors by civil service methods. I do not mean academic, theoretical, bookish civil service methods. I mean real civil service methods. I mean a civil service organization that would select men by the same standard which the men who sit before me employ to select a subordinate.

According to my experience, if you have a civil service commission which understands that we need some examination besides a mere paper examination of the scholastic kind, it can do infinitely better work in selecting proper candidates than any individual officer, because it has means of getting into touch with a much wider range of talent. It can sweep a whole state, or the whole United States, in its search for ability; whereas the ordinary individual is more or less limited to the people with whom he may happen to come in contact. I am a great believer in civil service methods because I have tried them, because I know that they interest a wider group of candidates and induce ambitious men, particularly young men, to aspire for these positions. All the eligible men that I personally know can be drawn into competition with ten times that number which a good civil service commission will interest in the appointments. Civil service at its best is a means not only of eliminating politics and personal favoritism, but of multiplying indefinitely the available material or talent.

The income assessors in Wisconsin were selected by civil service methods, and all three of the state tax commissioners are agreed that we got better men than could have been secured by other methods. The tax commission selected the assessor from the first three names presented by the civil service commission after examination. But this examination was a rational, business-like one.

How long assessors should hold office and what salary they should receive, are questions that can be decided at particular places only by reference to local conditions.

We have, if I may go back home for another illustration, we have forty-one supervisors of assessment in the state of Wisconsin, and the average salary is twelve hundred dollars a year. If you will ensure a man a fairly long tenure of office, and make him confident that he is going to be protected against the petty assaults that make the local assessor's life miserable, and assure him that the only standard by which he will be judged will be efficient work, you can get remarkably good men for moderate salaries, particularly in the smaller cities and rural districts. To direct and train these assessors properly and to assure them that they will be removed for inefficiency only, there is probably needed in addition, a central commission or board properly intent upon taxation rather than politics.

I think that most of you will agree with me that this is a correct statement of what we need, what the situation demands—barring

possibly my eulogy of civil service requirements. What is it then that prevents our getting and keeping efficient assessors?

The principal reason I believe is democracy's indifference to efficiency. The average community of American people care very little about public efficiency. If any one of you has ever held public office, you know that the ordinary citizen cares very little about efficiency. The way to hold a job, if you are anxious to hold it, is to loaf, make just as little trouble as possible, appear with the glad hand on the proper occasions, lie low like 'Br'er Rabbit' and be agreeable.

And democracy, for the kind of work of which we are speaking, will not ordinarily pay sufficient salaries. The local assessor in the State of Wisconsin is the worst paid official in the state. Local treasurers, who do little but sit in their desk chairs and take what is brought to them, receive more compensation than the assessors, whose work is not only hard but very disagreeable. The time has been in Wisconsin when it was not uncommon—I do not mean to say it was the general practice—but it was not uncommon practice to offer the job of assessor to the lowest bidder, and give it to the man who would undertake to perform the work for the smallest compensation. We received just the kind of service that the compensation warranted.

It is the most disheartening, the most disagreeable work that I know of, to try to interest the American electorate in this question of efficiency, of getting things done in a businesslike way, on time, in reasonable amount, at reasonable cost. You all know that. The situation is further complicated by the fact that in every community there are important men who resent and oppose good assessment work. Unconsciously for the most part—because we have few conscious grafters anywhere—people who do not want efficient work done see to it that the efficient man is not re-elected. There is a direct relation between efficiency and the probability of losing office. It does not always exist. If you have looked into this matter you will be surprised at the number of efficient assessors who, while they depend upon the local electorate, manage nevertheless to get office and keep it. But the general rule is the other way. The man who makes an honest assessment, particularly the man who makes a full value assessment—and it is difficult to get a good assessment unless it is made at full value—that man finds it particularly difficult to be re-elected, or if he is appointed by local officials, to be re-appointed.

Mr. Link, who is sitting at my left here, analyzed this situation very clearly in a paper which he read at the last meeting of the National Tax Association. In discussing the method of selecting assessors he said:

“Here the doctrine of home rule and the question of efficiency and equality in taxation meet in irreconcilable conflict. People do not like to be taxed, and if they must be taxed, they would rather be taxed by their neighbors and friends. They object to being taxed by foreigners or by officers in whose election they have had no voice, or with whom they have no influence. And yet, under the general property tax system, no assessment ever has or ever will approximate equality without adequate outside supervision. There are two reasons for this: First, it is too much to humanly expect local assessors to be indifferent to the selfish demands of their constituents, and particularly those of their constituents who are of political importance to them. Secondly, the question of efficiency is very seldom the determining factor in the election of an assessor. Thus, somehow, there must be devised a remedy for this situation; one which will to a reasonable extent offset partiality and inefficiency, and at the same time not openly do violence to the cherished tradition of a free people that they have the right to regulate their domestic affairs as they see fit.”

That is a very wise and adequate summary of the difficult problem which we have to solve, and having called attention to what seem to me the necessary conditions of its solution, I want to speak briefly on the practical means of realizing these conditions. Because I believe there is a real possibility of answering this riddle, or reconciling local democracy with centralization of the proper kind.

The key to the situation, I believe, lies in the American's love of fair play. We talk about the American being an efficient man, but so far as public service is concerned he cares little whether it is efficient or not. He is not interested in it. He will not take an hour's time, or spend ten cents, in the average case, to find out whether a given official is efficient, or even trying to be efficient. This is true. Any man who has studied the American electorate knows it is true. But he does love fair play, and I believe it may be possible to play upon his instinct for fair play in a way that will solve this problem. Let me illustrate by referring again to Wisconsin where we have stumbled on rather than developed a system which in the last two years has gone very far to settle some of the most difficult of these problems.

The keynote of that system is our reassessment statute. We have as you know a state tax commission. The people of Wisconsin, like the people of Indiana, would not permit the tax commission to appoint the assessors who actually make the assessments in the local districts. But note this fact. In most American commonwealths today, despite the fact that glaring injustice is involved in the ordinary assessment, there is no real remedy. There is no real remedy because the courts require an amount and kind of proof that is beyond the power of the average man to secure. Unlawful and discriminatory assessments are the rule rather than the exception, and yet the tests set up by the courts are so difficult to meet, that these assessments are not challenged and upset as they should be. Theoretically there is a remedy, practically there is none.

Under these circumstances, the people of Wisconsin reasoned in this way. "We have a tax commission," they said, "the commission knows the law, and is not trammled by the difficult rules of evidence and procedure which obtain in the courts. Why not make this tax commission a sort of informal court, a peoples' court, in which a case may be started by a mere complaint on a postal card, and where—if a *prima facie* case be made out by common sense methods—a further examination will be instituted by the commission itself, and the assessment corrected if it is found to be unlawful and discriminative."

Accordingly the people of Wisconsin passed a statute which permits anybody to make a complaint to the tax commission in the most informal way, and have that complaint investigated; and if it is determined, as I said before, that the assessment in question is an unlawful assessment, and that sound public policy would be subserved by making a reassessment, we go in and make a reassessment. The state is dotted with districts which have been reassessed by appointees of the tax commission. The instinct for fair play calls for a remedy, where the mere plea for efficiency and observance of the law would fall on deaf ears.

In many districts we have found assessments bad when nobody meant them to be bad, and conditions are frequently righted in such districts by a compromise. We say to the officials: "Your assessments here are unlawful. But reassessments are expensive. If you will promise to make the next assessment carefully under our supervision, and do it right, that will be satisfactory." A number of cases have been settled in this way. The next assessment made after such an arrangement has been reached, is usually

a good one. We secure either in this way or by actual reassessment a new standard in the section of country involved. The work of neighboring assessors is thrown into glaring contrast, and the people of a whole section get an object lesson which makes further reassessment unnecessary. For a short time after one of these reassessments there is frequently much hard feeling, but ordinarily the people come to feel, I think, that it has been a good thing; and they would not voluntarily go back to the old conditions.

All this reassessment work, it is important to note, is done under a statute which has been declared by our supreme court to be in complete harmony with a constitution that is rigidly insistent upon the right of each locality to elect its own officers, when not specifically provided for otherwise in the constitution. The state tax commission does not appoint local assessors. It simply revises the work of local assessors when that work is found to be defective and unlawful. The expense of the reassessment is charged to the district; and this power of reassessment is all the weapon or machinery that is necessary in the long run to secure substantially equitable assessments, provided you have the tax commission and the supervisors of assessment noted hereafter.

For generations in Wisconsin intangible personalty and particularly securities had practically escaped taxation. Earnest efforts were made to get them on the assessment roll; but after declaiming and exhorting and belaboring assessors with advice and exhortation for years, the tax commission made an investigation and found that securities were actually taxed at just 3.31 per cent of their full value. What I mean is that over ninety-six per cent of the taxable securities were escaping taxation. In a few districts small amounts of credits and securities were placed on the tax roll, but in general the assessment was shamefully irregular, and haphazard. In due time an income tax replaced the property tax on securities and some other forms of personal property; and with the income tax we secured the appointment of forty-one supervisors of assessment selected for reasonably long terms under civil service conditions. I have fallen into the habit of calling these supervisors "protected assessors."

Here is another psychological element to which I want to call attention. We got these "protected assessors" in Wisconsin simply because we put up to the people something they wanted which involved the protected assessor as a necessary prerequisite. The people of Wisconsin wanted an income tax. It was demonstrated

to them that every state income tax in this country had been a flat failure because it was administered by local officials; and to get the income tax in which they were interested, they took with it the state appointed, civil-service selected, amply-protected income assessor in whom they were not interested. Everybody saw that it would be futile to pass an income tax and leave it to be administered by the old type of assessors. So that question was never discussed. It was taken for granted.

Now the point I wish to make is this: the protected assessor is an indispensable part of the tax system. There can be no doubt about the truth of this. If it is true, the American people can be made to see the truth in one way or another. We may have to wait, but after a time the opportunity will occur. In Wisconsin we provided that the income assessors should serve as supervisors of assessment, and it was in this way that we got a group of supervisors appointed by the state tax commission, under civil service requirements. These assessors or supervisors were selected on merit. There are among them democrats, republicans, prohibitionists, single-taxers and socialists. In the last two years they have accomplished a fundamental reform in the administration of the tax laws.

In the first place, we have steadily improved the quality of the assessments, so that this year there are many districts in the state of Wisconsin where one finds a good honest assessment at full value. Property is assessed this year at 81 per cent of the full value, and as we have to ascertain the ratio of assessed to true value with great care—owing to the form of our railroad taxes—this figure may be regarded as trustworthy. Many districts are assessed at full value, and the state as a whole at eight-tenths of full value. Those of you who know how assessment at full value tends to produce equitable assessments, how the effort to reach the legal standard tends to equalize valuations, will recognize that this is work well worth doing.

Our method of working is about as follows: the supervisors of assessment advise and confer with the local assessors just as your county supervisors do. Mere advice, however, has meant very little in the past. In addition our supervisors may now say to any assessor who is not obeying the law: "I cannot make you obey the law directly, but if you continue to neglect the law I will be compelled to bring an application for reassessment and if on examination your work is not found to be in substantial compliance

with law, a reassessment will have to be ordered at the expense of your district." In a particularly atrocious case he may threaten to have the assessor removed and subjected to the penalties imposed for deliberate and conscious violation of the law.

The vital part of the whole process is the reassessment statute. And it is important to note that in essence this statute constitutes a practical remedy for tax discrimination. It is not a threat; it is not a club; it does not replace the local assessor with the state assessor; what it does is to make of the tax commission a people's court in which any person with a real grievance may get justice without the necessity of employing counsel, in accordance with an easy informal procedure which aims to get at the real facts in the most inexpensive way possible. Such procedure, such a court, ought to appeal to the American people and to the average American legislature. This machinery may by inaccurate description, be made to take the appearance of the iron hand of a centralized state government, unduly interfering in local affairs. It does not mean that. It means the opening of an easy portal to an informal tribunal where the average individual can get justice. This is its essential meaning and design. This is the way in which it should be described and discussed.

A word should be said about the county equalizations. After the local assessors have completed their work, each county board equalizes the assessments of the several districts within its jurisdiction. These county equalizations used to be in many districts mere matters of pull and haul. The city districts lined up against the country districts. Or some skillful city leader arranged a coalition with a limited number of the rural districts in order to take advantage of the other districts. The equalizations were made without systematic investigation and without an adequate basis of fact. At the present time we have the facts on which to make these equalizations substantially accurate; and our supervisors of assessment have been able in the last couple of years to convince most of the county boards that their figures are more trustworthy than the guesses in which many county boards have in the past indulged. Our county equalizations are not yet perfect, because an adequate body of facts is difficult to get and because our income assessors or supervisors of assessment are only human. But they are much better than they have ever been in the past, and the time is near when disputes over county equalizations will be practically eliminated. Nothing in the long run can stand up against a body of systematized facts, impartially collected and fairly analyzed.

It is of course proper for the members of the county board to use their judgment in making these equalizations and improve upon the work of the supervisor of assessment if it is possible for them to do so. If, however, they threaten merely to disregard the work of the supervisor and go back to the old log-rolling practices, the supervisor may say to them: "I cannot control your action in this matter but if you make an unlawful equalization and any aggrieved district complains to the tax commission, the commission will be forced to order a re-equalization, carried out at the expense of the districts which wrongfully benefited by the first equalization." But in the long run advice of this kind is unnecessary. Facts will tell, and if the supervisor gets the facts the victory in the long run must be his.

There is one other aspect of the state tax commission which I should mention and that is its economy. The American people are curiously wedded to direct taxation. They insist upon using this difficult and expensive method of taxation, and the instinct is probably sound which persuades them that direct taxes are better than the relatively easy and inexpensive methods of indirect taxation. But if they insist on using direct taxation, then they must have the necessary machinery. The average man is no more fitted to appraise a great industrial establishment than he would be to pass upon the qualifications of two competing Sanskrit scholars. We must have specialized ability. A state tax commission can furnish at minimum expense a central reserve of expert aid to assist local assessors in their work; and this is done in Wisconsin. We maintain, in company with the railroad commission a large number of experts who are not only employed in appraising public utilities and making reassessments, but are constantly at the call of local assessors who desire assistance in their work.

Under the system which I have been describing, the tax commission has over the local assessor no compulsory power though it has a corrective power. Nothing more in my opinion is desirable. You get the centralization which comes from the uniform direction of the tax commission working out through forty-one supervisors. You get unity of action, unity of interpretation, identity of treatment of different questions and different interests. You get the amount of centralization necessary to give coherence and power, but retain the element of decentralization which American democracy demands.

I have confined my remarks to Wisconsin methods and problems because that promised to be more profitable than a theoretical or

general discussion. I hope you will forgive what would seem to be an element of boastfulness in what I have been saying. We have a very poor system in many ways. Many defects remain, and there is an infinite amount yet to be accomplished; but the more I look over our general tax machinery the more I am convinced that it represents a good system. It is good because it solves Mr. Link's paradox—it harmonizes centralization and local self-government. We must beware of the danger of over-centralization. At present of course we have in most places much too much decentralization. We are fettered and tied because power and responsibility are so thoroughly diffused. But that ought not to inspire in us an unwise reaction in the opposite direction. The feeling for local autonomy is based upon generations of political experience, and it must not lightly be disregarded. In order to preserve the proper balance in Wisconsin we have introduced a home rule amendment which has already passed one session of the legislature and which will—if approved by another session of the legislature and then ratified by popular vote—authorize counties, towns, cities and villages to exempt for purposes of local taxation designated classes of property. The precise language of the amendment is as follows:

“The legislature shall have power to authorize counties, towns, cities and villages by vote of the electors therein to exempt from taxation in whole or in part designated classes of property; but the value of such property exempted by any county shall be included in the assessment and equalization for state purposes, and the value of such property exempted by any town, city or village shall be included in the assessment and equalization for state and county purposes.”

The Wisconsin amendment proposes a new kind of local option. The old kind made the mistake of empowering small local districts to decide what property should be assessed for county and state taxation. The state ought to insist that it shall fix the conditions of state taxation; but we ought to recognize at the same time that the local districts are entitled to a certain amount of power and discretion. We must not emasculate the ordinary local community. It is impossible in the first place, and it ought to be impossible.

The amendment proposed in Wisconsin provides for that very thing. It says that within limits designated by the legislature the town, city or village shall determine what property may be exempted from local taxation. The city would have power, for in-

stance, to authorize some little exemption for buildings, or make some allowance for manufacturing plants. And the same power is given to the county with respect to county taxation. Each could determine its own system; and the state assessments would be made by the supervisors of assessment. Their existence makes possible the kind of local option which we in Wisconsin have in mind. And it is useless, I think, to point out that this kind of local option involves some little administrative trouble and readjustment. Of course it does—but it is coming whether we like it or not. It is not a question of whether we are going to have local option or not: the question is what kind of local option we are going to have, and how soon, and whether buttressed by that amount of centralization which equally with local freedom, the facts and necessities of the situation imperatively demand. (*Applause.*)

CHAIRMAN REMY: At this point it has been suggested that we hear the report from the Nominating Committee on the organization of the Indiana Tax Association. If there is no objection I will call on Mr. Lewis, Chairman of that Committee, to make his report at this time.

REPORT OF COMMITTEE ON NOMINATIONS FOR OFFICERS OF THE INDIANA TAX ASSOCIATION

MR. EARNEST I. LEWIS: Mr. President, and gentlemen—In order that all may understand what I am to make a report on it is well to refer to the fact that last evening we decided to organize in this state an Indiana Tax Association whose chief function shall be the study of taxation, and to seek reform in administration, and also the betterment of the system. I am reporting for the Committee, the Committee on Nominations which was appointed last evening. I know that it is customary in the report of such a committee to simply read the list of names that we have decided on, and to railroad them through. I do not purpose to do any such thing today.

First, this committee has a little larger duty to perform than simply the selection of officials for an organization, because in the recommendations, I mean in the resolutions adopted last evening, the fourth clause says:

“That the officers of the Association for the ensuing year shall be a President, three Vice-Presidents, Secretary and Treasurer, who shall constitute the Executive Committee.”

We will suggest that there be five Vice-Presidents instead of three, for reasons which I will state later. Then the fifth clause of the report of the Committee says:

“The Executive Committee shall formulate a constitution and necessary by-laws, which shall be the constitution and by-laws of this Association until the close of the next convention.”

The scheme contemplates the calling of another tax convention. Then it says:

“The Committee shall fix the basis of membership and the basis of representation in the next convention for voting purposes.”

In reference to that clause I want at this time to say that patterning after the National Association, and taking the hint from it, it is found advisable to place limitations on membership, for reasons which will be apparent to many. Therefore we are to select not only officials for the more or less temporary organization until the next convention meets, but we are also to select from this body really an Organization Committee, the Secretary and Treasurer as well as the President and Vice-President; they all link in together with equal voice in deciding really what kind of a permanent organization we are to have. Modern science declares that at least the child has the right of good birth, and that is the theory on which your Committee has proceeded in the selection of these members who are more, really, as I have said, than officers so designated. It is then up to the child to build character, or fail to do it. At all events, we want to give this child a fair start. The thought was given expression yesterday several times, and I found it pretty general in our conferences with various people last night, that it is highly desirable that this Association be given the dignity and the protection that is accorded to this conference that is being held here today—that is, to bring it in very close relation to the State University extension work. On the other hand, this Association wants to have very close connection with the State Tax Board. That is for various and obvious reasons. First, there is no reason why this State Tax Association should not work in close accord, so far as possible, at least, and so far as the Tax Board wants to go in progressive measures, in full harmony with it.

Now with those preliminary remarks upon our recommendations, I am going to make a few remarks on the selection of these various people whom we nominate to fill the various positions in the organization of the Indiana Tax Association. It may be out

of the ordinary, and some people may think it is not quite the right thing, nevertheless I think it is well to give the reasons why we have selected these people.

Your Committee recommends for President, William A. Rawles, Professor of Political Economy in Indiana University. The reason for this selection is that it will very closely connect up this effort to study taxation and disseminate information on taxation throughout the state with the State University and this extension work. I think that is very legitimate. In the second place, it will give it protection from influences which at the beginning, at all events, we want to guard against. The State University should, through this appointment, be more or less concerned in the welfare and the course this Association follows for at least a year.

We have thought it advisable to enlarge on your recommendation for the nomination of three Vice-Presidents, and nominate five. Our first selection in the way of Vice-Presidents, although we are not going to give them in numerical order, this being more or less of a temporary organization, is State Tax Commissioner Dan M. Link. Mr. Link is selected here and recommended to you for the reason that he is the ranking member, the Dean you might say of the State Tax Board. He is also of the dominant political party, and his selection should open a direct channel whereby the Governor of the State of Indiana and the state administration can be in touch with us, to a limited extent at least. We think it is very desirable that we work in accord with the state house, so far as possible.

Without numerical order still, we name and recommend as another Vice-President John B. Stoll, who is a sturdy and sterling character, and his life-long service in northern Indiana in molding thought certainly recommends him to the people of Indiana. I think his connection with the Association will give it considerable strength all over the state, and particularly in northern Indiana.

Another recommendation for Vice-President is that of Mr. Fred A. Sims. Anyone that heard Mr. Sims's address here yesterday must be impressed with the fact that he certainly has a broad grasp on this problem.

For another Vice-President, without numerical order, we nominate L. S. Bowman. Mr. Bowman is Auditor of Wayne County, Indiana. He is in the eastern part of the state; and since County Auditors are so directly connected with the local taxing machinery, and Mr. Bowman takes enough interest in the matter to come here

to this conference, it seems at least that we should recognize the fact and give him some encouragement.

For the other Vice-President we recommend John A. Lapp, Director of the Bureau of Legislative and Administrative Information. Mr. Lapp, by the very nature of his work, is in touch with what other states are doing in the drafting of laws, etc. The state provides him with a fine library and a salaried secretary, and he has been very effective in aid of the enactment of the vocational education law and such other measures as the public utility acts, all of which recommend him for the position of one of the Vice-Presidents.

For Secretary we recommend Mr. Fred Bates Johnson, of Indianapolis, whose experience in newspaper work has equipped him to get information to all the people of the State of Indiana. He has also, I might say, a peculiar faculty for knowing what is going on and keeping in touch with conditions all over the state.

For Treasurer we recommend W. K. Stewart, of Indianapolis, of whom you probably have all heard.

Let me say in passing that we have also tried, while we didn't want political influences in the least to be dominant here, still we have tried to have different political opinions somewhat represented. The analysis of this list will show that they are fairly well represented.

Let us suggest to you that several people who have studied the tax system in Indiana, and are familiar with it from long experience, have suggested that there are many practical men that should be identified with this work. It is not the intention to eliminate anyone, but it is the intention here to organize what you might call a Board of Directors, to get together, and get this thing started, and get it started under what we might deem to be the right prestige.

It might impress some that the direction of this organization from the first is along rather academic lines. I do not believe it is. We have got it pretty well balanced, it seems to me. However, it has been suggested that possibly when they come to work out their perfected organization that this formal committee composed of the officers will see fit to organize by districts, and in that way, as chairman of the districts, get in as many practical men as possible, who will be of immense service, and should be included in this organization. That is the report the Committee desires to make.

CHAIRMAN REMY: Gentlemen of the conference, you have heard the report of the Committee on Nominations for officers of the Indiana Tax Association. What is your pleasure with reference to the report of the Committee? It is the report of the Committee on Nominations.

MR. JAMES PUTNAM, of Indianapolis: Mr. Chairman, I move the adoption of the report.

[The motion was seconded.]

CHAIRMAN REMY: Gentlemen, you have heard the report of the Committee. It is moved and seconded that the report of the Committee be adopted. The conference understands that the adoption of this motion carries with it the election of the persons nominated by the committee to the offices in connection with which they are named. All in favor of that motion will make it known by saying aye. Contrary, no. The ayes have it, and it is so ordered.

Next in order this morning is the address, or paper, on the subject, "Classification of Land for Purposes of Taxation," by the gentleman who, more than any other, is responsible for this Tax Conference, Dr. William A. Rawles, of Indiana University.

CLASSIFICATION OF LAND FOR PURPOSES OF TAXATION

DR. RAWLES: Mr. Chairman and members of the Tax Conference—I do not wish to appear unappreciative of the confidence which has been shown me, but I had hoped that some man of more practical experience in the business and political world, who is more widely known throughout the state, might be selected for President of the Association.

I know that in some quarters there is a disposition to look with some suspicion upon a college professor, as not a man of common sense and practical affairs. I hope that this suspicion will not injure this Association in the very beginning. I feel that the honor comes to me, not so much because of any merit of my own, but because of my relation to the University, and therefore because of the honor which is bestowed upon the University I wish to thank you very heartily.

The first enactment of the Northwest Territory which authorized the raising of taxes was passed in 1792. It imposed upon the authorities the duty of apportioning the taxes among the inhabitants of each district "according to the best of their judgment in

just proportion to the wealth in the county and ability to pay." Though awkwardly stated, this was a recognition of the faculty theory of taxation—that each should bear the financial burden in proportion to his taxable ability. To prevent any partiality or injustice, the law provided that any one who thought himself unreasonably assessed might petition the local courts or the General Court of the Territory for relief.

Since that time down to the present earnest efforts have been made, though sometimes in a blind and groping way, to adjust the tax system to the changing economic and social conditions. The aims have been, generally, to provide adequate revenue for the expanding needs of society; to increase administrative efficiency; to avoid measures which would retard economic development; and finally to make the system conform to the ethical requirements of universality and equality in taxation. Sometimes one of these motives has been dominant and sometimes another. But in spite of all the progress which has been made our system is still far from ideal. In the present day discussion of taxation the dominant purpose is to point out the way by which a greater degree of justice may be secured. It is my own view that constitutional limitations stand in the way of a full attainment of that end. It is the purpose of this paper, however, to attempt to show that even under the existing restrictions of the constitution changes in our methods of administration may be made which will not only tend toward approximate justice among the taxpayers but will insure greater revenue to the state.

Under the present constitution the state government and the local governments rely upon the general property tax for about 85 per cent. of their revenues. Taxes on land constitute about forty per cent. of the revenue for state and local purposes.

Under any general property tax there are three important governmental functions, namely, prescribing the rates by the properly constituted authorities, determining the base of the assessed value of the property subject to taxation and collecting the revenue. We are apt to watch closely the rate of taxation and fail to emphasize properly the importance of the assessing process, that is, the determining of the sum or base which multiplied by the rate will give the amount of tax which the owner of any specific property must pay. The levying of a tax or fixing of a rate is regarded as a sovereign power and the taxpayer is safe-guarded by constitutional restrictions and statutes. But the determination of the

base, which is quite as vital to the taxpayer as the fixing of the rate, is left almost entirely to the judgment or caprice of a minor official; he is limited in the exercise of his power only by the authority of equalizing boards which often do not have sufficient data upon which to make an accurate revision of the assessment.

In the assessment of tangible personal property the assessor's schedule specifies over a hundred classes of personalty, the value and, in many cases, the number of units of which must be returned. The object of this detailed itemization is to insure greater accuracy in the determination of the assessed valuation and *pro tanto* greater equality among tax-payers. But in the assessment of real property which constitutes about two thirds of all property not more than four classes are specified: lands (rural), in-lots, out-lots and improvements. In the abstract of the tax duplicate as published in the report of the Auditor of State the value of the urban land and the value of rural land are not shown separately. Neither is the number of acres, nor the number of lots designated for the different counties or cities. This makes it impossible for a resident of one county to make any accurate comparison between the assessed valuation of the *unit* in his county and the assessed valuation of the unit in the adjoining or any other county. Likewise it is difficult for boards of review to correct inequalities. It is the contention of the speaker that a more scientific classification of land will insure a greater revenue and at the same time mitigate the inequalities of assessment. Opportunity for accurate comparison of values tends to minimize the number of instances of undervaluation and at the same time affords a means of correcting inequalities when they do exist. But comparison is impossible without statistical data, and such data cannot be obtained without detailed classification.

At the Conference on State and Local Taxation held at Louisville, Kentucky, in 1909, a Committee on Uniform Classification of Real Estate was appointed. This committee was composed of administrators of tax laws. The substance of the first report of the committee presented at the Tax Conference in the following year, was as follows: that without a proper statistical basis, true comparison between states and localities is impossible, and without true comparison the determination of the real economic effects of tax laws and their administration is impossible; that the intent of all general tax laws is to produce equality of tax burdens among taxpayers by means of fair and accurate assessments; that fair

and accurate assessment of real estate will be promoted by the adoption of tax maps and the classification of real estate as presented in the report; and that an intelligent study, analysis and criticism of assessments and assessment methods will be promoted by the adoption of statistical reports as presented in the report of the Committee.¹

Our laws already provide for the separate assessment of land and improvements and require a distinction between urban and rural lands. Taking, first, rural lands let us see how they can be further classified so as to furnish proper statistical data for accurate comparison between lands lying in the same neighborhood or in different localities. The value of land is determined by the use to which it is devoted or may be devoted, and its use is determined by its quality and accessibility. The basis of classification should, therefore, be the principal use to which land is devoted. Accepting this as the proper basis and adopting, with some modification, the classification as originally suggested by Dr. L. G. Powers, Chief Statistician of the Bureau of the Census, I submit the following scheme as a working basis for Indiana:

1. Cultivated land, which includes all land under cultivation or being used for meadows.

2. Arable land, which includes all land not under cultivation but capable of being plowed.

3. Pasture land, which includes all land devoted to grazing (excepting that included under timber land); subdivided into (a) tillable and (b) untillable land.

4. Orchard land, which includes all land covered by fruit-bearing trees.

5. Timber land, which includes all land covered by timber containing not less than — trees per acre, averaging not less than — inches at the butt: subdivided into (a) land used for pasture and (b) lands not used for pasture.

6. Mineral land, which includes all lands containing coal or other minerals in quantity to pay for mining them.

7. Quarry land, which includes all land containing stone in quantity and quality sufficient to pay for removing it.

8. Oil and gas land, which includes all land containing oil or gas in quantities sufficient to pay for extracting them.

9. Waste land, which includes all land not included in any of the other classes.

¹ *Report of the Proceedings of the National Conference on State and Local Taxation, 1910, p. 339.*

The assessor should enter in his field book all assessments in the consecutive order in which properties exist along the various streets and roads and not in alphabetical order. This arrangement makes a comparison of the different assessments of a district easy and prevents the omission of property from the tax lists. Index cards should be used to assemble all the property of an individual under his name.

The field books should also contain the following data: (1) The number of acres in each parcel of land separately assessed, (2) the number of acres in each class of land contained within such parcels, (3) the minimum and maximum value of an acre of each of the nine classes of land within his district, (4) the value of the amount of each of the nine classes of land contained in each of the separate parcels, (5) the total value of the amounts of all classes of land contained in each parcel, (6) the total value including buildings and improvements of each separate parcel, and (7) the name of the reputed owner of each separate parcel. The assessor should also indicate in his field book or map whether the land is level, rolling or hilly; whether it is prairie, bottom or upland; and whether the soil is rocky, shallow, deep, light or heavy. The abstracts furnished the State Board of Tax Commissioners should show for each county the *total number of acres and the total value of land for each county and the minimum and maximum value of an acre of each class of land in the county.*

It might be desirable in the assessment of timber land, mineral land, quarry land and oil and gas land to provide for expert assessors under the immediate direction of the Board of State Tax Commissioners. In the first application of this system there would be some difficulty in placing certain parcels of land in their proper classes. Under the advice of experts employed by the State Board the difficulties would gradually disappear. In the course of a few years valuable statistical data would be secured. With such information before it, how much easier it would be for a county board of review to check up inequalities in the assessment of individuals or townships! And how much more readily could the State Board of Tax Commissioners equalize the assessments of counties!

Such a system is in use in a number of other states. It has been recently adopted in Kansas with modifications especially suited to that state. The Kansas Tax Commission reports that material is available which will make possible an assessment more equitable than any yet made.

This is not a mechanical device which can be applied as a yard stick to the measurement of some tangible object. There would still be need for the exercise of judgment on the part of the assessor, for evaluating a thing is a mental process, not a mechanical one; but such information would afford a basis for more accurate and, therefore, more equitable judgments.

An accurate map is quite as essential to the assessor as his field book and assessment roll. The sketch maps on cross-section paper now used in Indiana are helpful. But they should be worked up in greater detail. They should show not only the boundaries and acreage of each parcel of land but also the buildings and many of the natural conditions such as streams, lakes, ponds, marshes, the character of the surface, the quality of the soil and other characteristics enumerated in the classification already suggested. It is the character and location of the land and not its size which determine its value. The original maps may be kept in the county assessor's office and tracings be furnished township assessors. Maps give the assessor a perspective or a bird's-eye view of a whole neighborhood. They enable him to get a better knowledge of the relative values included in the assessing district. They prevent the omission of unreported tracts. They are indispensable to a county board of review for the purpose of fairly equalizing assessments. In case of appeal to the State Board of Tax Commissioners the maps should be transmitted for their use.

In the assessment of real estate in towns and cities it is essential that lands and improvements be assessed separately. The tax law of Indiana requires such separation at present. The subject of this paper is limited to the consideration of the assessment of land only. The classification of urban land is a simple matter; for it is used almost exclusively for building sites. It may be classified as (a) city and town lots actually occupied by buildings and (b) unoccupied city and town lots which because of their location have no prospective use except as building sites. If urban land is plotted it should be classified as lots. If it is unplotted it is more convenient to classify it as "undeveloped town lots in acres" and assess it by acreage.

If maps constitute a valuable aid in the assessment of rural land how much more important they are in towns and cities. The great number of parcels and the high values make their use indispensable if equitable assessment is to be attained. They should be accurate and be promptly revised as changes occur. The most

serviceable plan for mapping a city is the "block and lot" system. In the preparation of these maps the city, if large, is usually divided into sections or wards. The sections are further divided into blocks containing one or more squares. The blocks are bounded on all sides by streets, or streets and water fronts. They are designated by numbers from one upward and these numbers should not be changed. Within each block the map is again subdivided so as to show the separate lots or parcels which are likewise numbered, consecutively from one upward. When changes of ownership occur and lots are combined or further divided the changes are noted on the maps after proper survey. In some cases the numbers only are entered on the assessment roll. In Newark, N. J., the assessor begins at one end of the street and proceeds to the other or to the limit of his assessment district. This offers excellent opportunity for comparison of values. In New York the assessors list the lots by blocks. This insures that every parcel will be assessed and comparison along the various streets is made easy by the use of land value maps.

In some cities the block and lot maps are supplemented by the use of land value maps. These are designed to facilitate the comparison of values and thus to bring about greater uniformity in assessment. "They are based on the general principle that a more or less definite relationship tends to exist between the land value of lots of the same general character situated in the same immediate locality or in other localities subject to similar conditions."² Land value maps are maps which show for the area covered, first, all streets and water front (the section, block, and lot lines used in block and lot maps not being indicated), and second, by figures opposite each of the four sides of each square, the *value per front foot* of an average inside lot fronting on the street along which the figures are written, running straight back from the street, being of normal grade and having a normal depth, that is, the usual depth of the lots in the city. If the values of the lots on the opposite sides of a street are the same, the figures representing such value are written in the middle of the street but once. If the values on the opposite sides of a street differ, two sets of figures are used to record the values. And sometimes separate figures are used on the same side of a street in the same square when the value per front foot of the average inside lots

² Report of Department of Taxes and Assessments of New York City, 1912, Appendix, p. 127.

varies considerably. In case land is not plotted the value per acre is shown at appropriate points.³

It is apparent that the unit of area in a city cannot be an acre as in the case of rural lands, because the parcels are relatively small. Neither can it be a square foot, for the respective square feet differ greatly in value. The unit chosen is a portion of land having a frontage of one foot and a depth equal to that of the average lot of the city or the section of the city under consideration. In New York this depth is 100 feet; in Baltimore it is 150 feet. It is recognized at once that the first important problem to be solved by the assessors or the board which directs the assessors is to find the value of the unit, that is, a standard by which to measure the value of each parcel. Having determined the *unit of area* which is an inside lot having a frontage of one foot, lying at right angles to the street, being of normal grade and having a normal depth, its value may be called the "*unit value*."

In order to show the method of determining such a unit value, I quote from the report of the Philadelphia Advisory Committee on Municipal Finance, submitted in May, 1913:⁴

- "a. Select an inside lot near the center of the square.
- "b. Ascertain the value of the land contained therein as apart from that of the buildings or improvements.
- "c. If it is off-grade, allow for that fact.
- "d. If it is of more or less than average depth, calculate its value as if of normal depth (for example, 100 or 150 feet).
- "e. If it is of irregular shape, add from adjoining property or subtract from the lot itself to make it a square or rectangular lot at right angles to the street and allow for such addition or subtraction in determining values.
- "f. If it has any other peculiarities differentiating it from the other inside lots fronting on the same square, allow for all such peculiarities.
- "g. Having done all this, divide the value arrived at by the number of feet frontage and the quotient will be a tentative figure, for the unit value.
- "h. This should be checked up by treating similarly various other inside lots on the same square, and by obtaining, through proper publicity all possible criticism and suggestion.
- "i. If it is found that there is a marked difference in the land values of different inside lots in the same square and on the same

³ *Ibid*, p. 128.

⁴ *Ibid*, p. 129.

side of the street, more than one unit value should be set down at appropriate points on the map for such a square.”

Having the “unit value” and having ascertained the frontage of a normal lot, that is, a lot lying at right angles to the street, being of normal grade and having a normal depth, the determination of its total value is a matter of multiplication. “But,” you say, “many lots are not normal because they vary in depth, are irregular in shape, lie above or below grade or are affected by ‘corner influence’ or other factors of value and, therefore, your rule cannot be arithmetically applied with accurate results.” It is true that many variations do occur and if the allowances that must be made for these departures from the normal lot cannot be calculated accurately the system will be of little assistance in determining the value of urban land.

Let us consider these variations from the normal. In case a certain lot is off-grade it can be easily estimated what will be the cost to fill it up or cut it down to grade. This expense should be deducted from the value of a normal lot and the remainder would be the value of the particular lot.

In determining the value of a short or long lot several rules have been worked out as a result of wide experience. These are sometimes called “long and short lot rules.” These are based upon the fact that there is a mathematical relation existing between any two portions of a lot lying at varying distances from the street front such that the values of the portions decrease with the increase of distance.

While there is a variation in the rules, their differences are negligible. The one selected for any particular city should be adapted to meet the local conditions. The simplest but least satisfactory rule is the “four-three-two-one” rule. According to this rule, beginning at the street frontage the first 25 feet of a lot 100 feet in depth are worth 40 per cent. of the whole; the next 25 feet are worth 30 per cent. of the whole; the third 25 feet, 20 per cent; and the last 25 feet, 10 per cent. of the whole. The Hoffman-Neill rule, the Newark rule, the Somers rule and the Lindsay-Bernard rule are more accurate. The last, which is used in Baltimore, is based upon a unit depth of 150 feet; the others, upon a unit depth of 100 feet. Their variations can be most readily shown by the following graph, based upon the percentage tables.⁵

⁵ Condensed table showing the percentage of unit value for lots of varying depth :

	Hoffman-Neil Rule.	Lindsay-Bernard Rule.	Somers Rule.
Depth of lot..... 10	Per cent of unit..... 26	Per cent of unit.... 15	Per cent of unit.. 25
Depth of lot..... 20	Per cent of unit..... 39	Per cent of unit.... 27	Per cent of unit.. 41
Depth of lot..... 30	Per cent of unit..... 49	Per cent of unit.... 38.5	Per cent of unit.. 54
Depth of lot..... 40	Per cent of unit..... 58	Per cent of unit.... 49	Per cent of unit.. 64
Depth of lot..... 50	Per cent of unit..... 67	Per cent of unit.... 58.5	Per cent of unit.. 72.5
Depth of lot..... 60	Per cent of unit..... 74	Per cent of unit.... 67	Per cent of unit.. 79.5
Depth of lot..... 70	Per cent of unit..... 81	Per cent of unit.... 73.9	Per cent of unit.. 85.6
Depth of lot..... 80	Per cent of unit..... 88	Per cent of unit.... 79.6	Per cent of unit.. 90.9
Depth of lot..... 90	Per cent of unit..... 94	Per cent of unit.... 84.2	Per cent of unit.. 95.6
Depth of lot..... 100	Per cent of unit..... 100	Per cent of unit.... 88	Per cent of unit.. 100
Depth of lot..... 110		Per cent of unit.... 91.1	Per cent of unit.. 104
Depth of lot..... 120		Per cent of unit.... 93.8	Per cent of unit.. 107.5
Depth of lot..... 130		Per cent of unit.... 96.1	Per cent of unit.. 110.5
Depth of lot..... 140		Per cent of unit.... 98.2	Per cent of unit.. 113
Depth of lot..... 150		Per cent of unit.... 100	Per cent of unit.. 115

More complete tables will be found in the *Report of the Department of Taxes and Assessments of New York City, 1913*, Appendix, pp. 131-2, 134-5; *Some Principles and Problems of Real Estate Valuation*, by A. D. Bernard, (Baltimore, Md.); and *The Somers Unit System of Realty Valuation*, published by the Manufacturers' Appraisal Company, Cleveland, Ohio.

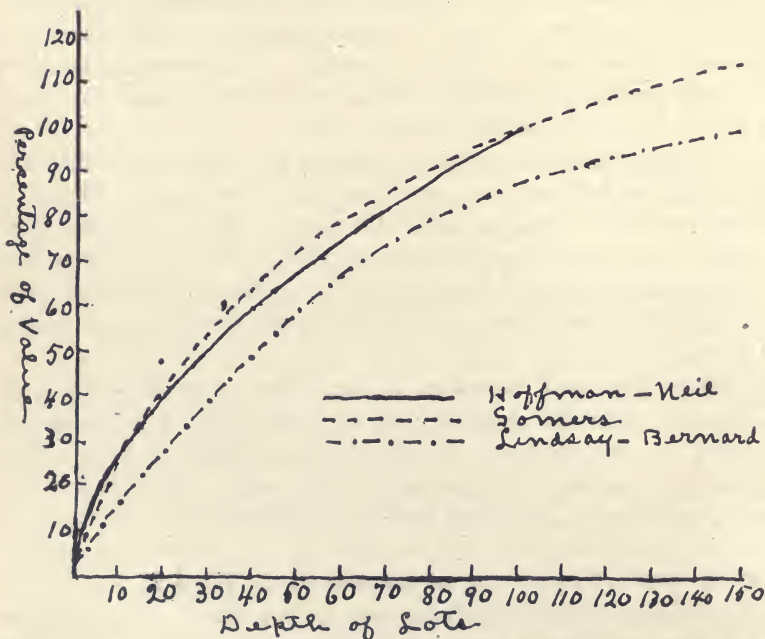


FIG. 1

Where a lot is regular in shape but has a depth greater or less than the normal depth, its value may be readily determined by ascertaining from the table what percentage a lot of the given depth will have and multiplying by this number the value of a lot of normal depth having the same width.

Where lots are irregular in shape they may be reduced to normal lots or be broken up into a considerable number of regular blocks to which the percentage values may be applied. A few of the methods used are mentioned by way of illustration.

- (1) Where the side lines of a lot are not equal.

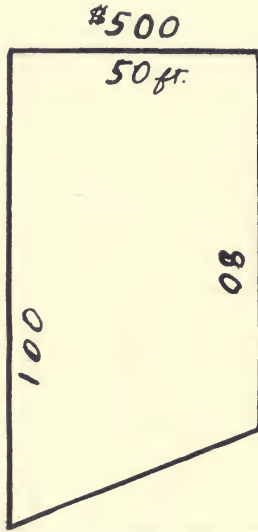


FIG. 2

New York method: For figure 2 ascertain the average depth of the lot by adding the lengths of the two sides and dividing by two ($100+80\div 2=90$); next ascertain from the table the percentage for a lot 90 feet deep; then multiply the unit value by this per cent. ($\$500\times .94=\470); then multiply this by the width to obtain the total value ($\$470\times 50=\$23,500$).

(2) Where the front and rear sides are of unequal length.

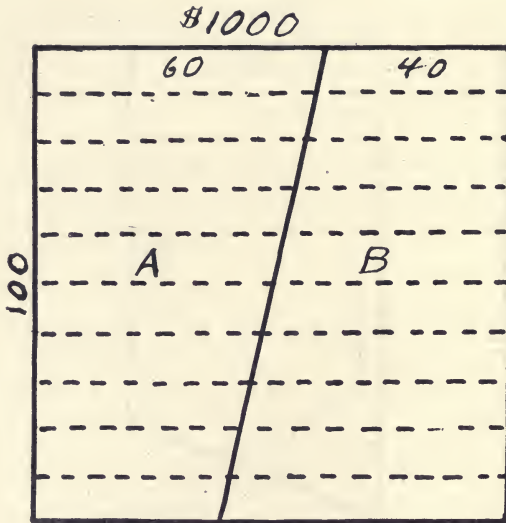


FIG. 3

Somers method: In figure 3 the number of square feet in each lot is the same; but their values differ because of the greater frontage of A. The value of the entire plot (A and B) equals \$100,000. Divide the lot into zones 10 feet deep; ascertain the unit for each zone; multiply this unit value by a number representing the average width, that is, the length of a line drawn through the middle of each zone parallel to the street; sum up the values of the zones in each parcel and the result will be its total value. The value of A is \$53,059 and of B \$46,941. The value of the two lots equals the value of the total plot.

- (3) Where the lot is a right-angled triangle.

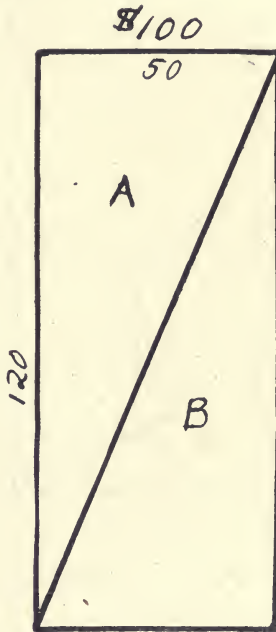


FIG. 4

Lindsay-Bernard method: In figure 4 to find the value of A, ascertain the value of a rectangle with one half the depth of the triangle. The unit value of a rectangle having a depth of 60 feet is 67 per cent. of the normal unit value. In this case it equals \$67; multiply this by the width to get the total value of A ($\$67 \times 50 = \$3,350$). To find the value of B subtract the value of A from the value of the whole plot ($[\$100 \times .938 \times 50] - \$3,350 = \$1,340$).

- (4) Where the lot consists of numerous irregularities.

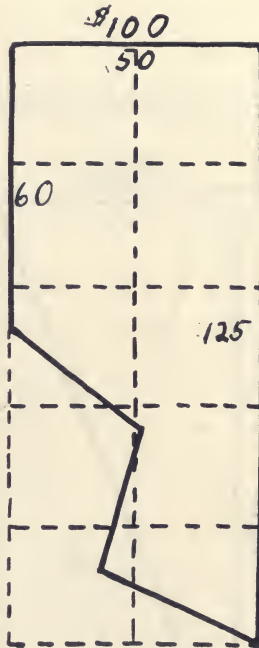


FIG. 5

Lindsay-Bernard method: In figure 5, block the lot off into a number of squares; ascertain the value of the separate blocks according to the Lindsay-Bernard rule and add up the values of the separate squares or parts of squares. The value of the rectangular lot is \$4,750 and that of the irregular lot is \$4,173.

Corner lots present one of the greatest difficulties even when percentage tables are available. Where two streets cross the lots located upon the intersection or in proximity to it have their value greatly enhanced because they benefit from more abundant light, freer ventilation, greater accessibility and better adaptability to the erection of buildings. It is necessary to determine what allowance should be made for this corner influence and how far it extends from the intersection. Sometimes this influence is determined in accordance with a scale of percentage values previously adopted as the result of careful observation of the selling prices, rentals, and other factors of value. In Newark in the case of corner lots in the business districts 50 per cent. is added to their values calculated as inside lots; in the residential section 25 per

cent. is added. In New York 50 per cent. is usually added. Cleveland, St. Louis, and several other cities use the Somers system. According to this method an imaginary corner lot 100 feet square is constructed at the corner to be valued; this imaginary lot is subdivided into 100 squares, each 10 feet square and numbered in regular order. By the use of secret formulæ Mr. Somers has computed the percentage value of each of these squares under all possible variations. Each lot is diagrammed upon this imaginary corner lot and its value is determined by adding the values of all the squares or parts of squares within its boundaries.

STREET UNIT \$100 PER FRONT FOOT	10	20	30	40	50	60	70	80	90	100
	9	19	29	39	49	59	69	79	89	99
	8	18	28	38	48	58	68	78	88	98
	7	17	27	37	47	57	67	77	87	97
	6	16	26	36	46	56	66	76	86	96
	5	15	25	35	45	55	65	75	85	95
	4	14	24	34	44	54	64	74	84	94
	3	13	23	33	43	53	63	73	83	93
	2	12	22	32	42	52	62	72	82	92
	1	11	21	31	41	51	61	71	81	91
STREET UNIT \$200 PER FRONT FOOT										

FIG. 6. THE SOMERS IMAGINARY SQUARE

Messrs. Lindsay and Bernard, rejecting the percentage method and the mathematical system of Mr. Somers have proposed the following rule:

“First, reduce the lot to its logical front which will be on the highest valued street, whether the lot actually faces it or sides on it.

“Second, find its value as an inside lot on the main street;

“Third, find its value as an inside lot on the side street, producing it on the Lindsay-Bernard rule; the sum will be the minimum value for the corner;

“Fourth, add all the minor factors of value which suggest themselves to an intelligent appraiser.”⁶

This rule is used in the retail business and office building districts. In the warehouse and factory districts but one-half the value of the side unit is added. In residence districts they have found that corner influence generally extends only 20 feet from the intersection.

Whatever rule for fixing unit values may be adopted there will still remain need for the exercise of wise judgment and honesty on the part of the assessor. For location, shape and size do not constitute all the factors of value. Transportation, character of business, absorption of value, plottage, utility and social atmosphere must be given proper weight by the assessors. Notwithstanding the necessity for this personal element in valuation, the block and lot maps, land value maps and rules of computation furnish a most valuable system by means of which the assessors and boards of review may use their judgment more intelligently. They compel an analysis of the factors of value. They break up the process of valuation into its constituent elements, the mental process and the mathematical. By the adoption of a standard, that is, an assumed lot of definite size and shape, they leave the mind of the assessor free to consider the influence of location and the other factors of value. Such tools tend to bring about accuracy, uniformity, and standardization in appraisal. They eliminate secrecy and favoritism. They restore to the taxpayer a sense of assurance that others are not enjoying advantages which are denied to him.

Wherever such systems have been introduced they have produced satisfactory results. After the Somers system had been adopted in Cleveland, Mayor Newton D. Baker declared that it gave the most practical and just system of real estate assessment he had ever seen. Frederick C. Howe, the distinguished writer on municipal questions, made the following statement: “I think the word ‘scientific’ may now be applied to assessments of real property for purposes of taxation, for science, as I understand it, is a law of causation. Given certain premises, certain results must follow. The system employed in Cleveland, the Somers system,

⁶A. D. Bernard, *Some Principles and Problems of Real Estate Valuation*, pp. 51-52.

is a law of causation to results." "The effect of that is two-fold. It has a moral effect upon the official because he works all the time in the open; and in addition the searchlight of publicity is on all his acts after his work is completed, for it all goes to the community for examination. It puts the citizens in the best possible way to complain if they find they have been overvalued."

I have tried to show how other states and cities have brought about a more accurate and a more equitable appraisal of real estate for purposes of taxation by the adoption of a better classification of land and the use of maps. It has been a common practice in Indiana to denounce the assessor. Is it entirely just? Have we done our full duty by furnishing him the best tools for his work? Is it not better to provide him the most modern equipment so that his assessment may be accurate in the first place rather than to try to correct the errors and inequalities which are inevitable under the present? Let us prescribe for him the best methods and the best facilities and then hold him strictly accountable.

Modification of our present laws in accordance with these suggestions may be made without waiting for an amendment of the constitution. They are simple and involve no radical change in our theory of taxation. (*Applause.*)

MR. DAN M. LINK: Mr. Chairman, may I say a word in connection with this paper?

CHAIRMAN REMY: The Chair recognizes Mr. Link.

MR. DAN M. LINK: Mr. Chairman—I presume there is no other man, at least no other man in the State of Indiana, who could have prepared this paper that we have just listened to. The science of the taxation of real estate is a branch of taxation in itself which is given very little attention by students of taxation because it is hard to understand, and the practical difficulties in the way of assessing real estate in the State of Indiana, with the system now provided by our laws, have been amply illustrated by the paper just read by Professor Rawles; and it put me in mind of the observations that have been made blaming the poor assessor for the poor assessment of the real estate, when he has had no appliances at hand, or paraphernalia, to use to aid him in arriving at a just appraisal, and the difficulty with which the State Board has to contend in trying to secure a uniform valuation of real estate.

Now Lake County, for instance—they always point to Lake County, because it furnishes abundant illustrations of most any sort of bad thing in taxation you may call to mind—the growth there has been so rapid that the local assessor, who gets five hundred dollars a year for assessing forty million dollars of property in that county, cannot keep track of the new lots and new buildings put on the lots. It has happened that there would be whole additions with a large number of lots that would not be on the tax duplicate at all; and it has happened that very large and expensive buildings have been built for business and residence purposes which were not noticed by the assessor, and ran along for years without being assessed; and that condition was complained of to him, and he was the one who brought it to the notice of the Tax Board. He said: "I know that condition exists, but I haven't in my office the means to keep up with these things. I have a territory that reaches for twelve miles around a given point, and I haven't the scratch of a pen, no records, and even with my magnificent salary of five hundred dollars a year I am unable to employ engineers and make drafts and records and put myself in a position to make a proper assessment in my district."

We made numerous visits to Gary, and we decided that the only way to get a decent assessment there was to give that assessor a set of maps of the city of Gary. There are something like thirty-two thousand lots, and when we went over it, after he reported it to us, he was just simply astounded himself to find out how many lots and how many buildings had never been assessed at all.

CHAIRMAN REMY: I believe that the gentleman who was selected to lead the discussion this morning, Mr. Stoll, is not present. Am I right about that? He does not seem to be here. Are there others who desire to discuss these questions? We have fifteen minutes yet, if my time is correct, until twelve o'clock; and under the rule that will give three men an opportunity to talk for five minutes each.

MR. J. W. MCCARDLE: Mr. President and gentlemen—As a citizen and taxpayer of Indiana I am here by no invitation, but I know that I am welcome. That has already been demonstrated by the gentlemen who have this conference in charge, especially by my distinguished friend who sits here on my right. I do not represent anybody here today but myself as a taxpayer, but I am vitally interested in the subject of taxation, not only in Indiana

but throughout the country, and I have been delighted to hear these papers read by distinguished men from other states who have given the best part of their life to the study of taxation. I have been interested, ladies and gentlemen, in the study of taxation, and I came down here today to hear these discussions; and Mr. Chairman, as all Irishmen are not alike, I am inclined to have decided opinions of my own. I never found out that those decided opinions didn't amount to very much until I became a member of the State Tax Board of Indiana. I found out then that there were four other good, strong, intelligent, conscientious men sitting on that Board besides myself who had opinions, and who were able to express them. Therefore I want to criticise practically every man who has spoken here except this gentleman on my right. I have no criticism to offer against the Professor on his paper. It is a valuable paper, full of good things. But the criticism especially that I am going to offer is against that distinguished citizen who is not here today, our friend Mr. Jacob P. Dunn. He is the man that helped write the tax law of Indiana, and I want to say to you gentlemen that he could not have written a better law if he had worked a hundred years on it. But he didn't have the courage yesterday to defend the Indiana tax law. I am confident enough, Mr. Chairman, and decided enough in my own opinion, to stand up in your presence and defend the Indiana tax law.

Notwithstanding we have heard these many valuable papers from distinguished men from various states dealing with the different methods of taxation, there has not been a single speaker here that has touched the root of this evil. Not one. You have prepared plans and methods and arranged for the levying and collection of taxes, haven't you? But you haven't said a single word about spending them, have you? There is where the trouble is, my friends. It is in spending this money after you have collected it. It is the trouble with all municipalities. I am not going to pick out any one. It is the trouble at Indianapolis as well as at Bloomington. The people don't get the value of their money. That is where the trouble is. If you talk about economy practice it. I want to say to this association that has been arranged for, that you have a moral right, and I hope that you will exercise it. Let the word go out from this great and magnificent institution that you are going to suggest, that you are going to advise, that you are going to plead with all municipalities to spend this money as it should be spent and get value received. That is the question that

confronts the American people today. The ordinary taxpayer goes into the Treasurer's office and pays his tax. He says to the Treasurer, "Why, my taxes are higher this year." "Yes" the Treasurer says, "they are higher." "Well, why?" The ordinary taxpayer is supposed to be paying attention to his usual vocation, and he is not paying any attention to what the tax collector is doing, or the assessor, until he comes to the bar of justice and lays down his money; and then he finds out that his taxes are higher.

I was very much interested in what the distinguished gentleman from New York said last evening. I talked with him. He impressed me very much. I was defending the Indiana tax law, and while I haven't time to go into details I don't think you could convince me that the Indiana tax law is wrong. There are a few things in it, of course, that ought to be corrected. There never was a law passed in Indiana, nor in any other commonwealth throughout this great and glorious Union of ours, that didn't have some defect. We know that. And he spoke about it, and Mr. Link spoke about it. Mr. Link knows because he is a member of the State Tax Board now. Everybody says it is the township assessor. Poor fellow; he is not paid very much, and he is indifferent to conditions when he approaches the taxpayer, and there is where the trouble is they say. Well, perhaps it is largely so, but you correct just a few little things in the Indiana tax law and you have got the best tax law there is in this country today. That is what you have got. It is a general property tax, and taxes everything, assesses everything. It doesn't except a man because he has made a little money. It doesn't tax industry, but it taxes everything else. And that is right. If you are going to make a tax, if you are going to raise money tax everything. Apply the law, and put it in execution, and you will get good results.

Now the gentleman from New York, I was telling him about the nice features of the Indiana tax law, and he said, as Mr. Dunn said: "Why," he says, "the poor widow; she hasn't got any show. You tax her to death." Now there is some truth in what has been said about taxing the poor widow. Also about taxing the poor man who has a little home. There is some truth in that. That is because the township assessor can see that little house and see that little lot. He can see just what it is. Nothing is covered up. The man is off at work, and the woman is at home, and she says, "Here is my house, my home," and they assess it. It is not so with the rich man. But that is the fault of the assessors, and it is not the fault of the law.

But I said to my New York friend, "I will tell you about the widow;" and, men, I want to refer to an incident that occurred when I was a member of the tax board, in Clay county, in Brazil. I went down there to attend a meeting of the County Board of Review. When I went in they were busy. They met in the basement of the courthouse, and there was an old woman came down there to present a matter before the County Board. I think she said she was sixty-two years old. As soon as she came in the chairman said to her, "My lady friend, what can we do for you?" He stopped the proceedings there right away to hear her case. "Why," she says "you have assessed my property too high." He says, "Is that so?" "Yes," she says, "I wash for a living four days in the week. I have a brother that met with an accident that I am taking care of, and you have assessed my property too high. It is all I can do to live." Well, that county assessor, grand old fellow—and we have a good lot of them in Indiana—he says, "Now madam about what do you think that property ought to be assessed at?" She told them what it was assessed at the last time. He says, "All right; we will see what we can do for you;" and in thirty minutes after that the poor old woman left that room, her property was assessed at just exactly what she said it ought to be assessed at.

I want to convey this idea to you men who do not live in Indiana, that the poorest woman or the poorest man can appeal his or her case to the County Board of Review without any expense. We have some county assessors here today, Sullivan of Johnson County, and Becker of Hamilton County, and I say to you if you appear before those men, rich or poor, high or low, you will get justice. They will treat you right. They will assess your property right; and if you are not satisfied with their appraisalment you can appeal it to the State Tax Board that Mr. Dunn has practically condemned. The State Tax Board of Indiana is absolutely all right. They are men of character, and men of intelligence, and you take your case before those men and I will assure you and guarantee you fair and equal justice. I do not want any man who lives outside the State of Indiana to go away from here with the idea that the Indiana tax law is so oppressive that injustice may be done you and you cannot get a hearing. You can be heard.

It fell to me to say that for Indiana; and I say to you, if you think there is anything wrong send it in to Mr. Link. If you

have any trouble I say to you take it to Mr. Link, and I say that he will give you fair and courteous treatment as well as justice.

Now, Mr. Chairman, if I am exceeding my time you must call me down.

CHAIRMAN REMY: You have used ten minutes. It is now five minutes to twelve. If nobody else desires to talk, and the chair hears no objection, you may go on. The rule is five minute speeches for discussion.

MR. MCCARDLE: If you say so I will quit. (Cries of "Go on," "Go on.") Well, then, with your consent I will occupy just a few moments more. I want to talk to you about the Tax Board. Mr. Dunn referred to what these gentlemen had done in assessing railroad property. Now there is another problem. Mr. Link went over that story yesterday, and he explained it just about as well as any man here could possibly explain it. I am not a railroad man, but let me tell you something about railroad property, and I do not own a share of stock in any railroad corporation, nor in any other corporation; I am just one of these little business fellows of Indiana, but I pay my taxes in three counties. Fortunate, ain't I? Well, Mr. Dunn criticised the action of the State Board of Tax Commissioners. Now I was on that Board, and I want to say to you gentlemen right here, without any discrimination, that the railroads of Indiana pay more taxes than any other class of corporation property. That's what they do. And I ask you gentlemen in all fairness, is it right to single out the railroads and tax them more than anybody else? Is that right? Absolutely no. And I am proud of the professor from Wabash College, Mr. Leonard. I have never met you, Mr. Leonard, but I want to compliment you on your talk last night. You criticised the men from Michigan. Why, their taxes up there are almost confiscatory of property; and it is wrong. Absolutely wrong. All the American people want is a square deal. The railroads are not asking anything else. They have done more to civilize this country than any other one thing. They pushed clear across to the Golden West and opened up the greatest opportunity and the greatest country under the sun. That is what the railroads have done—and I don't own any property in railroads and I don't want to, and I never rode on a railroad pass in my life, and am not representing any railroad. All I say is to give the railroads a square deal. They do not ask anything else.

I made a comparison of some figures, Mr. Chairman, on the banks of Indianapolis. I want to say to you that I am not a banker, unfortunately. I wish I was. But I don't own a share of stock in a bank. I wish I did. But I had occasion to call up Mr. John E. Reed, who was formerly Deputy Auditor of State, and I said, "John, can you tell me how the banks are assessed, or what they report for their assessment to the County Board of Review?" He says, "Yes, I can;" and I want to tell you what the banks of Indiana pay in taxes, and that is to be considered, Mr. Chairman. There is a sentiment in the minds of the people, especially with regard to railroads and banks, that they do not pay their share of the taxes. Now listen to me for just a moment, for I am going home, Mr. Chairman, as soon as this session is over, and will not bother you any more. The book value of the Fletcher American National Bank of Indianapolis was one hundred and fifty-two, as they reported to the County Board of Review. Assessed at seventy per cent. for equalization purposes, it amounts to \$106.40. They pay ten per cent. dividends during the year. Now the tax rate is \$2.36, and you add that on, which will make \$12.36, and the rate of taxation would be \$2.51 on the basis of \$100.00. That would leave to the stockholder \$9.85, or seventy-five per cent. of the net profit. Twenty-five per cent. of net profit is paid in taxes by the Fletcher American National Bank of Indianapolis. Now there is another bank there—and this bank pays 8 per cent. dividends. I have them all but I will only give you one other—the Merchants National Bank. They have an assessment on the basis of \$205.00 per share. At seventy per cent. of that for equalization purposes, if you figure at \$2.36, the tax rate in Marion County, you will see gentlemen that they pay forty-eight per cent. of the net profit on a share of bank stock in taxes. That is what they do in the City of Indianapolis.

Now, Mr. Chairman, I thank these gentlemen for their kind attention, and the consideration they have given me in this matter, and I hope and trust that when this association is formed, when the organization is completed, that you will go out and advise—you cannot compel—but advise and plead with the people of the State of Indiana, and the people of the other states, wherever you may go, and tell them how to spend this money as well as to collect it. (*Applause.*)

CHAIRMAN REMY: It is now twelve o'clock, which is the hour of adjournment. Is there anything further to come before the conference?

MR. JAMES W. MORRISON, of Frankfort: Mr. President, my experience in taxation is limited to that of a county assessor. I wish to state that the reason the people of the State of Indiana object to a constitutional convention or to an amendment of the constitution grows out of the fact that our people, as a people, believe in the tax law of Indiana. They believe it to be fair and just, and that the decisions of the Supreme Court and the United States Court have practically settled all questions that may arise in connection with it, and they are afraid of having those questions opened up again to be experimented with. It is proper that the County Commissioners should furnish county and township assessors with all the data and information to enable them to arrive at the best possible valuation or appraisal. There is no question but what our law works properly, and that a great deal depends on the county assessor; and I do not believe you will ever get better men than those selected by the people locally, in their respective tax districts. (*Applause.*)

CHAIRMAN REMY: Dr. Rawles has an announcement to make.

DR. WILLIAM A. RAWLES: Mr. Chairman, I desire to announce that the faculty is extending a luncheon today at noon in the room below, which is complimentary to the members of the conference, and I hope you will all stop there. If there is anyone who has not yet received a ticket he will please stop at the door and get one.

MR. DAN M. LINK: Mr. Chairman, in view of the fact that there is a great amount of work to be done after luncheon, and that all of those who are in attendance upon the conference from out of town desire to take the four o'clock train, I move that the afternoon session begin promptly at 1:30, instead of 2:00 p.m., as indicated on the program.

CHAIRMAN REMY: The Chair suggests that that be taken by consent, if there is no objection. I think that is a very good suggestion in view of the fact that we are going to get our lunch here. Surely in an hour and a half we can be ready to resume our work in this room. We have two excellent papers for this afternoon, one by Mr. John A. Lapp, and one by Tax Commissioner Wolcott; and I ask that every member of the conference

be in his seat promptly at one thirty, so that we may be able to get through. Most of the people who are here from a distance expect to leave on the 4:10 train, and I think the suggestion of Tax Commissioner Link that we meet a half hour earlier is timely. If there is no objection his motion will be taken by consent. If there is nothing further to come before the conference this morning we will now stand adjourned until 1:30 p.m.

FRIDAY, FEBRUARY 6—AFTERNOON SESSION

The Conference met pursuant to adjournment at 1:30 o'clock p.m., and was called to order by Dr. William A. Rawles.

DR. RAWLES: Gentlemen of the Conference, I have the pleasure of introducing to you, as the Presiding Officer for this afternoon, Mr. John F. White of Indianapolis.

CHAIRMAN WHITE: Gentlemen of the Conference, I don't know whether this has been with the purpose of saving the old wine for the last of the feast or not, but inasmuch as we have simply an hour or two for this afternoon's session I will at least be brief. I shall not attempt to make any address, except to say that this convention has been one of the best that I have ever attended, and we have had a most complete program of splendid material. I think out of this conference ought to come a great good to Indiana. It ought at least to stimulate interest in taxation matters, and get a better system, or if not a better system of taxation, at least a better administration of taxation methods.

For this afternoon, inasmuch as a number of persons desire to get away early, I will start with the first paper on the program, and I feel assured we will have another treat on the part of Mr. John A. Lapp, Director of Bureau of Legislative and Administrative Information of Indiana. I now take great pleasure in introducing to you Mr. Lapp who will address you.

THE NEED OF A SPECIAL TAX COMMISSION

MR. LAPP: Gentlemen of the Conference—I had prepared a very elaborate address to set forth the needs for a special investigation of the subject of taxation in Indiana, but in view of some statements that have been made here I have discovered that there is no need for any special investigation. In fact, there is no need for any change in taxation, because we have had it stated that

we have a perfectly adequate system of taxation, just in every particular, needing only a few minor amendments here and there.

I stopped the preparation, for a while, of the further speech that I was going to make, but after thinking it over I am somewhat convinced that what we have been told during the conference, what people are saying all over the state, what experts all over the country are saying concerning the inadequacy of our tax system, cannot be false. I have come to the conclusion that we do need a better system of taxation in Indiana.

I had also thought that we needed a change in the constitution of Indiana in order that we might among other things, have a proper system of taxation, but we have had it stated at this conference that the constitution of Indiana is perfectly all right, and we have no need for a constitutional convention because everything is in proper form now, and the men of today are not capable of handling a constitutional convention.

But after thinking that over I am convinced that we still need a constitutional convention for the purpose of fixing up the basic law so that we may have an adequate system of taxation in Indiana as one of its fruits.

Now, of course the system of taxation was all right at one time, but it is our experience that in any field of social economics, unless we make continual adjustments from year to year, we shall soon have a system lagging behind the times; that we shall have great gaps in which the law does not properly and adequately perform its function. Some people say we ought not to have a session of the legislature excepting once in ten years. I think that is absolutely absurd, for if we didn't have a session of the legislature every two years we would have this great gap that I am speaking about between actual conditions and the state of the law. So I am convinced now that we do need an investigation of the subject of taxation in Indiana.

The discussions of this conference have disclosed the perplexities of the problem with which we are dealing. There is perhaps no problem which involves more difficulties in the formulation and administration of a proper system than that of taxation. There is no problem which to an outside observer seems to be farther from an adequate solution in this state and in other states. And yet the experience of the states of this country would point the way to the solution of many of the difficulties which confront us.

It is apparent, and will be admitted everywhere, that there is

no state in the Union that has a perfect system of taxation, at least if we judge by the criticisms which people are making of different systems of taxation, both in the home state and outside. And yet many states have solved single problems, and have pieces of a fairly adequate system of taxation. For instance, New York has some successful applications in taxation. Wisconsin, we have heard this morning, has some very successful features of taxation. California has worked out some things in the matter of classification of property that work very well. Michigan has some good things; and so on through the country, many states have reached a working basis on certain phases of taxation. What we need now for this State, and for all states, is to gather up these successful experiences in different states and try if we can to weld them together into some adequate system.

One thing is evident, that is, that we cannot settle this problem by piecemeal. It must be taken in its complete aspects. It must be solved as a unit in order that the system shall be comprehensive and at the same time honest and fair. If we want to get that sort of a system, we cannot depend upon individual initiative, either of private citizens or of public officials. Nor can we depend upon the unaided efforts of the General Assembly. Each man, whether he be a private citizen or an office holder, has many more problems to consider and can give only a minimum of time to the thought and effort which are necessary to work out the matter to its final analysis. We must depend, therefore, upon some organization, or somebody working exclusively and efficiently to the end of collecting, analyzing, and setting forth the main facts which must underlie the solution of this problem. The work requires long study. It requires expert assistance. It requires the opinions of men in every walk of life, and it requires that all the facts shall be gathered together and set forth in such manner that out of the facts may come a logical and complete system of taxation.

For the reasons stated, it is plain that if we are to get at the bottom of this matter, we shall need a special investigation representing all classes of people who are concerned with this problem, who shall be appointed for reasons of knowledge, experience and interest in working out from the accumulated experience of this and other states an adequate and fair system of taxation for the State of Indiana.

Such an investigation must be thorough, or else it might better not be had. A partial solution of the problem is not what we

are after. Nothing short of a full survey and a practical and complete working plan of taxation will satisfy the state permanently. We can, to be sure, go on adding piecemeal to the present cumbrous system with its inequalities, its concealment of property, its promotion of perjury, and its general unfairness. It is not mere change that is needed. We do not want to substitute some different system of taxation just merely because it is different. We want, rather, to comprehend and solve the whole problem, but, most of all, we want to make the people of the state comprehend it. The best system cannot be adopted nor will it work, unless the people have been educated to its purposes, and are willing to educate themselves in its administration. This investigation must be fairly representative of men of all the classes that are interested. Such a commission, I should think, should be composed of a representative of the tax paying class, and a representative of the laboring class—someone has suggested that laboring men and men who do not pay taxes directly are not vitally interested. Of course we know that that is absurd, because in the last analysis every man, whether he pays his tax directly to the taxgatherer, or whether he pays it to a man who pays it to the taxgatherer, is interested in the subject of taxation.

We ought to have a representative from the business interests of the state, and a representative of agriculture and above all we ought to have a representative from the State Tax Board itself, which is charged with the duty of administering the law, and is familiar with all the details and defects in the actual administration of the law of the state.

We need also men who will look at the thing from a large standpoint, men who will look at it from the standpoint of the professor of political economy, if you will, who have no particular interest except the welfare of the state in their minds.

Such a body as that—and I just merely suggest an outline—could investigate the subject for Indiana. We could find out very quickly whether or not it is true that we do not need any change in taxation in Indiana. We could find out very rapidly, too, what changes are needed; and when we get those facts together we can present them in such a manner to the state that the people of the state will understand them; and that I take it is vitally necessary.

I have seen a great many investigations in this state and in other states which surveyed the facts in certain fields. After the facts were gotten they were quietly concealed in ponderous volumes

or in the offices of the Capitol, or in some other place. The people did not get hold of the facts. They did not have a chance to study them. The results of many investigations of that sort have been pigeonholed, and the results have not reached the people. We must take everybody into our confidence. We must try to educate everybody on this subject; and when we have done that, when we have worked this problem out, I dare say we will come to the conclusion—I haven't any doubt in the world that this commission will come to the conclusion, if it should be appointed—that we ought to have a comprehensive change in the tax system in Indiana; that no matter how good the system of taxation may have been a few years ago, that it is not adequate at the present time, and it is not adequate for the rapidly changing future.

We must look, in this problem, not merely to the present, but we must formulate such a system of taxation that it will adjust itself, or that it can be readily adjusted to the changes which we foresee are going to happen in the next few years. And, gentlemen, let me tell you that those changes are going to be very rapid and very sweeping, so that we must take them into consideration. We cannot do it, I believe, in any other possible way, excepting to have appointed, under state authority, a commission, with ample funds and ample power to get hold of all the facts connected with taxation in Indiana, and then to present those facts in such form that they may be used to educate the state upon a just system of taxation.

If we are to keep from falling into that condition which President Bryan pointed out yesterday morning we must do this thing. We must in some manner or other get these facts. I am convinced that the only way to get them is to have an official commission, representative of all classes of the people, to investigate this subject and report. (*Applause.*)

CHAIRMAN WHITE: The indictments against our present taxing system seems to be accumulating. The next speaker of the afternoon will be the Hon. Eben H. Wolcott, State Tax Commissioner, and he will talk to us on "The Amendment of the Tax Clause of the Constitution of Indiana." Gentlemen, I have the pleasure of introducing Mr. Wolcott.

THE AMENDMENT OF THE TAX CLAUSE OF THE CONSTITUTION OF
INDIANA

MR. WOLCOTT: Mr. President and gentlemen—In discussing the amendment of the tax clause of the Constitution of Indiana, the subject assigned to me, I ask your indulgence to first quote it, so that we can have a proper foundation upon which to build this discussion. It is as follows :

“The General Assembly shall provide by law for uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, both real and personal excepting such only for municipal, educational, literary, scientific, religious or charitable purposes, as may be especially exempted by law.”

You will note that it is brief, concise and imperative, demanding that the basis of all taxation shall be uniformity, equality and justice. Prior to 1891, when the law under which interpretation “the fair cash value” of property was used as a basis of assessment, the taxation of property in Indiana was not fair, but was unlawful and in a most chaotic and dangerous condition. Local affiliations, mutual desire to favor or protect those to whom they owed allegiance for election, or on account of relationship or personal interest, so dominated the situation that inequalities grew and multiplied as, between towns and counties until the spirit of the law was forgotten or entirely ignored.

The word “fair” opened up a feeling of individual judgment and appraisal that practically nullified the meaning of the constitutional provision. Each assessor acted and felt that nothing was fair that would cause his locality to pay more tax than any other, nor could anything be fair to his constituents that would place upon them a greater per cent. of the so-called “burden of State tax” than any other community, the result of which was that the state lost in its revenue to the verge of bankruptcy.

In 1891 Judge Timothy Howard framed and caused to be enacted the law that established the State Board of Tax Commissioners, and also changed the wording referring to values to “the true cash value” instead of “the fair cash value.”

Great improvement was immediately felt in increased valuations all over the State, as under the interpretation of this law the true cash value was considered to mean “the selling price of any article at the place where it is located, which can be secured at private sale and not at forced or auction sale.”

The State Tax Board, assessing as it did the railroad, telegraph, express, transportation companies, etc., very largely increased valuations and influenced the new taxing officers to better efforts locally, but the letter of the law was not enforced. Property was not assessed at its true cash value, and I do not believe in Indiana there has ever been a time when *all* property was assessed at its true cash value.

For many years the Indiana law, while not perfect, assessing property as it does under the so called "general property tax" was very effective and was pronounced by many as one of the best laws upon the statute books, but conditions have materially changed. Property valuations are no longer represented almost entirely by real estate with its improvements and tangible personal property, but owing to the creation of a vast amount of securities in recent years, or of that class of property known as "intangibles," we have to contend with a condition almost entirely different from that which confronted the taxing officials of former days. Many states indeed have recognized this new situation and have amended their constitutions or passed such laws as they thought would be more efficient in securing results. In the words of Professor Schurman in his presidential address before the members of the National Tax Convention, "This is an expert age and tax raising has become a function of government." Naturally this calls for the services of well equipped men, of sufficient machinery to carry out the work of the proper valuation of property listed for taxation, and the placing of such laws upon the statute books, as will be perfectly fair and enforceable when put into practice.

We have never in Indiana enforced a penalty for the violation of the taxing laws, so that they are practically a dead letter without the proper respect of those whose duty it is to carry out their provisions, and without fear to those who deem that evasion is simply self-protection.

I am compelled per force by my limited time, to discuss very briefly indeed, certain changes in the taxing laws which I deem most advisable. Besides some of these changes will be discussed most ably by other gentlemen to whom these subjects have been specifically assigned. It is useless to discuss or deny the fact that property in Indiana today is not assessed according to law. The precedent of under-valuation has been so long established and has become so fixed that any radical change under the present law would be difficult, but this is no new story as every state has been or is confronted with the same situation.

I realize that the suggestions that I make for amendment of the taxing laws are not indefensible. There is much to be said both pro and con about any change, but that some changes are imperative is unquestioned, that results under our present system are not satisfactory is true indeed, but whether the changes advocated by me are the best, is open to discussion and should receive serious and careful consideration.

I see much in them, and so present them briefly, as my time is limited. They are not original with me, other states have tried in some way, every change I suggest, but not in the same manner presented in this paper. I suggest—

First, A classification tax whereby certain kinds of intangible property are assessed at a low fixed rate.

There can be no question but that intangible property representing as it does a vast part of the personal property in existence, is not taxed at its true cash value or in fact listed for taxation at all except to a very small degree. Professor Bullock of Harvard University most aptly recognized the situation of the taxation of intangibles and declares, "The method and rates of taxation must be adjusted to the requirements of the various classes of taxable objects; no rate upon any class should be higher than can be collected with reasonable certainty. No rate should be so high as to drive out of a community persons or capital or industries, and any rate that exceeds what a class of taxable objects will bear, must result in loss of revenue, injury to industry and such general demoralization as accompanies widespread evasion of the law." Many states have recognized this and have passed such laws as to consider the assessment of certain intangibles as different from other classes of real or personal property. In this connection I beg to refer to New York's "Secured Debt Law" upon which I will not enlarge, to the Pennsylvania Law which taxes notes, mortgages, secured and unsecured, money on deposit drawing interest, etc., at four mills on the dollar, also to the following states in which notes secured by mortgage, in the state, are exempt, such as California, Colorado, Connecticut, Delaware, District of Columbia, Idaho, Louisiana, Maine, Massachusetts, New Jersey, Utah, Washington, Wisconsin and Wyoming. Also commercial paper is exempt in Delaware, District of Columbia, Washington, Wisconsin, with certain kinds in New Jersey, and taxed in Pennsylvania at four mills. While this class of tangible property, especially mortgages of record owned by our own citizens, is assessed at the full local rate whether the mortgages are secured by property in Indiana or elsewhere. A

citizen of the State of Colorado, Delaware, District of Columbia, Idaho, Utah, or Washington or Wisconsin (this state has an income tax), can lend money in our own state without paying tax either here or at his own home. Or a citizen of Pennsylvania, Rhode Island, New York or Iowa can lend money in our state paying a low fixed rate of assessment, in other words, penalizing the citizen of Indiana who desires to loan money on mortgages in his own state or elsewhere as against the resident of other states in the Union. This phase of the tax question relating to the assessment of intangible property is most vitally important, but I believe it has been fully considered by the Honorable Fred S. Sims, so that I need not enlarge further upon this in particular.

Second, The exemption of money, either on hand or deposited in banks or trust companies which does not draw interest.

There has always been one class of property that is assessed at its true cash value more than any other, and that is money. Under a conscientious desire to regard their obligation, some—yes many—assessors have placed money upon the duplicate at one hundred cents on the dollar as there could be no difference of opinion as to its value, but countless other articles of personal property have been listed from one-fourth to full value, depending upon the personal ideas of the local assessor and his judgment regarding them.

Money in itself is of no value. It simply has an exchange value and is worth nothing in itself except that it can be exchanged for something desired or needed. The value of every dollar is reflected in some other property of some kind, for if there were no values in property, then money would be useless.

In primitive times in our own country men met and exchanged articles in person, the trapper his furs for food, or clothing, the farmer his products for those of the merchant or the services of the smith or the miller, but as articles multiplied and distance grew between those who desired to exchange, it became necessary to use some medium, or in other words, money entered into the exchange as a needed factor. Money earns nothing itself. It neither increases nor decreases in value except as its purchasing power grows or declines, which is simply again reflecting its exchange value and I, personally, do not think that money, idle or uninvested money, should be taxed. At present we do tax idle money, if found, but we provide a vast amount of untaxable securities which permits millions of dollars invested in such to escape. As soon as money is converted into something else, such as certificates of deposit,

notes, mortgages, bonds, etc., and begins to earn or produce an income it is a different matter. Some states recognize this and do not assess money on deposit unless interest bearing, notably Pennsylvania. Another reason why money should not be taxed is that the amount of actual money listed for assessment is as nothing compared with deposits of banks or the known volume of money in circulation, and any law which contains provisions which are so completely evaded or which places such a heavy burden upon the few who conform to its mandates is a poor law and should be amended or changed.

Third, The exemption of household furniture and personal effects to the value of \$——.

The farcical assessment of household goods in Indiana is such as to readily prove that the law as it stands at present is most ineffective. The average value of household furniture assessed in the various counties in Indiana as reported to the State Tax Commissioners last year was \$43.50, the highest shown being in Tippecanoe County with an average of \$102 and the lowest being Starke County with an average assessment of \$19. Marion County, in which is located Indianapolis, did not report. That this does not represent the actual value of household goods is beyond dispute, but that it does show the mental attitude of the people who are assessed is clearly evident. Take the assessment of Starke County, averaging \$19. Place an average rate of assessment on it of 3 per cent. and you would get a taxing return of 57c. New York State exempts household furniture and personal effects to the value of \$1,000. Recently the State Tax Board had a request from the State of Maryland asking their opinion about exempting household furniture to the extent of \$500, and while I do not feel that there should be too large a value of exemption, I do feel that every encouragement should be given to the home builders of our State, to those whose sole possession consists largely of their little house furnishings and that we can afford to be generous when valuing this most essential and necessary part of our domestic life.

Fourth, The power of the State Tax Commissioners to equalize assessments of personal property by classes.

There is no department of the taxing question that causes as much concern as the assessment of certain classes of personal property. Local conditions are such an important factor. The uncontrollable impulse to protect their own community from over-taxation has resulted in a system of comparative assessments between the different counties in the State of Indiana which most

unfortunately has for its basis of values, not the true cash value but some certain value which it is felt will not result in an excessive assessment as compared with other counties.

Recognizing this condition, the State Tax Commissioners last year made a most strenuous effort for the equalization of personal property throughout the State and while the results were far from perfect, as I will show from comparative tables later, they resulted in a gain of about \$36,000,000, including certain improvements on real estate as against the gain of about \$3,000,000 for the preceding year, including also improvements upon real estate.

Permit me to say here that considering the machinery at the disposal of the taxing officers in the State of Indiana, the exceedingly low salaries paid for the services of those employed, the vast range of information that is required, the accurate knowledge and almost miraculous power of divination that would be needed to secure results under our present methods, the work that has been done is truly wonderful and deserves the utmost commendation. But the imperfections are such, the inability to perform their duties completely and correctly in the limited time required by the law and with the lack of experience and equipment of those appointed to carry out its provisions, as to make it most difficult indeed to secure the equalization that is demanded by the law and should be enforced in order that justice may be done to all. Last year the State Tax Board prepared a blank showing the average assessment of certain classes of personal property which were to be returned to us to be used for equalization purposes, and while in many places evidently a most careful effort was made to assess according to law, in some places unquestionably careless and imperfect methods governed the assessment of many classes of property or else the records were imperfect and unreliable that were submitted to us. I presented this comparative statement before the State meeting of Tax Commissioners and County Assessors, and with your permission, I will ingraft that part of my report in this paper:

The average value assessed against farm implements from the different counties reporting was \$51.80, and varied from \$150 in Gibson County to about \$25 in Crawford, Jefferson, Pike, Scott and Starke; the lowest county being Jennings which showed an average value of about \$22.

Household furniture averaged \$43.50, the highest shown being Tippecanoe with an average of \$102; Sullivan next with \$90; Gibson, a rather poor southern county at \$75; Madison County, rich

and prosperous at \$74; then another southern county, Harrison, at \$73; the lowest being Starke County, in the northwest part of the State with an average assessment being reported of about \$19.

Automobiles averaged about \$300, but the variations were not so great; \$450 being the highest and \$175 in Jay County the lowest. We all realize that there would naturally be some wide difference in opinion as to the value of farm implements which depreciate greatly after use, the care that has been given to the work of preserving them being so varied, and as to the value of household goods which are of personal value largely to the owner, not being desirable property at second hand. But when it comes to the valuation of horses, cattle and hogs, these are staple commodities, readily salable, convertible into money, and the judgment of men should not differ greatly nor should the character and quality of live stock differ much in the various counties, but it seems when it comes to valuing this class of property for taxing purposes, the variations shown were very great.

The average value of horses as reported to us throughout the State was about \$81; the highest being \$130; in Dekalb County, Elkhart, Gibson and Greene at \$125; Tippecanoe, \$112; Harrison, \$109; with Lake, Tipton, Vermillion and Wabash at \$100 and over. The lowest was Jennings County with an average value of \$46.10; Dearborn and Starke at \$56.

The average value reported on cattle was \$27; the highest by Greene County with an average of \$50; Tippecanoe following at \$45, and Lake at \$40; the lowest being Jennings County at \$14; with Crawford, Knox and Posey at \$15.

The average value of hogs was \$7, ranging from \$18 in Blackford County and \$14 for brood sows in Rush County to \$4 in Vanderburgh, and an average value of about \$5 in Allen, Crawford, Dearborn, Elkhart, Gibson, Jennings, Lake, Miami, Scott, Steuben, St. Joseph and White.

More equalization was found in the assessment of money, notes, mortgages and bank stocks. But even in the assessment of this class of property, the value of which is practically fixed, certain counties persisted in assessing notes and money more than bank and trust company stock, which is of greater value in practically every instance.

In order to correct these inequalities and those that arose for the under-assessment of certain other personal property, the State Board of Equalization found it necessary to raise twenty-five counties, and *under the present law we were compelled to raise the*

entire personal property in the county. Whereas, if we could have raised certain classes which had been improperly or under-assessed, we could have made a much better and more satisfactory assessment.

There is no doubt but that certain inaccuracies crept into these reports sent to us, but we could not understand why any error or errors could possibly account for such variations. In order to go into this situation a little more differently, let us compare some adjoining counties with average valuations as follows:

	<i>Farm Implements.</i>	<i>Furniture.</i>	<i>Autos.</i>	<i>Horses.</i>	<i>Cattle.</i>	<i>Hogs.</i>
Daviess	\$40	\$30	\$350	\$86	\$30	\$6
Knox	55	40	300	50	15	6
Bartholomew	70	46	380	90	27	6
Johnson	53	54	300	87	36	10
Pulaski	28	25	250	64	20	..
Starke	26	19	241	56	23	6
Delaware	35	38	395	70	30	5
Madison	72	74	431	86	..	..
Crawford	25	20	250	60	15	5
Harrison	65	73	419	109	38	7
Adams	65	50	...	93	27	6
Jay	65	50	175	90	28	7
Benton	75	50	280	81	35	..
Warren	40	31	301	73	27	7
Huntington	67.50	41.50	399	87	24	7
Wabash	50	30	200	100	35	7
Tipton	46	44	330	100	35	8
Clinton	50	38	290	70	31	7
Jackson	68	65	252	94	36	7
Jennings	22	19	245	46	14	5
Clark	30	34	332	73	33	6.50
Floyd	75	60	350	80	20	12
Greene	40	50	400	125	50	..
Sullivan	72	90	400	72	24	6

If any argument were needed for a law permitting the State Board of Tax Commissioners to equalize assessments of personal property by classes, I sincerely believe that the above tables submitted, showing the great difference in values notwithstanding the most earnest and sincere effort of many of the tax officials in the State to secure uniformity and equality, would be conclusive proof that some other authority, to be effective, must be given other than the law now provides.

Fifth, The appointment of county assessors from civil service examination to be under the direct control of the State Board of Tax Commissioners.

The advisability of divorcing the local influence which now exists and is so potently felt in the assessment of our towns, counties and cities, influenced as it is by the fact that the position of the county assessor and township assessors depends upon their ability to please their constituents, these offices being elective, has been made plain to many students of taxation in the past because in many cases the provisions of the taxing laws have been absolutely disregarded and disobeyed when they ran counter to public opinion. I say this without any reflection upon the integrity of any officer in the State of Indiana, as this experience is not alone confined to Indiana but to practically every state in the Union which has a law similar to our own.

Professor Seligman in his *Essays in Taxation* quotes from a number of State Commissions regarding their opinion of the general property tax and its effectiveness. One calls it "a tax upon ignorance and honesty," another speaks of "the mischief wrought by its corrupting and demoralizing influence," another calls the system "debauching to the conscience and subversive of the public morals—a school for perjury permitted by law." From a New York report comes this criticism, "it puts a premium on perjury and a penalty on integrity." The Ohio Commission declared that "it results in debauching the moral sense and is a school of perjury, imposing unjust burden on the man who is scrupulously honest." Ohio recently passed the Warnes Law and as one Ohio paper states, it "throws mantle of Civil Service around entire taxation machinery of State, and 2,000 employees will be tested for their efficiency."

The above criticisms are applied to the general property tax system, and while I wish this to stand as a criticism of this system, I wish it especially to be borne in mind that with such feeling against the law and its imperfections the county assessor should be absolutely removed from any local influence or any feeling that the law is imperfect or any desire to shield or protect in his mind, those to whom he is under obligation, so that if he was responsible only to the State Tax Commission, his tenure of office depending upon his services and his ability and efficiency, there would be no other consideration before him than to see that the provisions of the law are enforced.

That under our law vast quantities of property are escaping taxation, is too well known. That a vast army of men do not pay tax is shown from the report, that in the county of Marion alone 28,000 did not pay any taxes for the year 1912. Add this to those

in other counties and the resultant figures are appalling. Something should be done to stop this army of evasion with its camp followers of tax dodgers and those who only pay partial taxes.

I see no way under our present law or a law similar to this except to divorce the taxing officers from politics and make their positions dependent upon satisfactory services and strong integrity. Wisconsin, which has made some wonderful strides in the way of modern tax methods, has created the office of Supervisor of Assessments, appointed by the Governor under civil service rules and while this officer does not supplant the county assessor, he has full authority to hold hearings, listen to complaints and if necessary, order the reassessment in any county which has been imperfectly assessed. In the last two years, from their reports, I understand 56 reassessments were applied for and twenty-five granted, the results being most surprisingly beneficial both from a moral effect and from the stimulus given to those conscientious officers who did efficient work as against those who were unfair or neglectful. Wisconsin has an income tax law which I trust will be discussed at this convention by Professor Adams, as it is a large step forward in modern taxation methods and well worth serious consideration.

Sixth, The basis of taxation of all property to be its true cash value with a limit to the rate of assessment.

The fact that the law provides that the true cash value of the property must be the basis of assessment in Indiana would seem to indicate that in advising this as a change in our present method of assessment, I am not in reality advocating a law different from the one now in force except in relation to limiting the rate, but it is begging the question to say that property is assessed at its true cash value in Indiana. It is not, and never has been. The basis of our present method of taxation is to a large extent comparative. Someone, somewhere, placed a value that he believed would be acceptable or approved by the people, which, of course, is not a high value, but one sufficiently low to be satisfactory and other values were builded around this under the guise of equalization. That this leads into a labyrinth of error, discrepancies, individual differences and personal favoritism, is unquestionable. There can be no equality in assessment unless the true cash value is used as the basis, but unless we limit the rate, unless we put some check upon the administration of those into whose hands the expenditures of our money is placed, there will be, unless human

nature has changed and the history of past experiences are untrue, an era of extravagance and mis-administration most deplorable indeed. *There is no check upon the personal expenditure of money or public expenditure of money like a limited income.* It is the history of countries and peoples that in their public affairs they always spend their full revenues, and besides are usually in debt to the limit of their ability to contract the same. I believe it would be most dangerous indeed to assess property as the law requires and prescribes, unless some check is put upon the administration, of the amount of revenue that would be derived from this valuation. Ohio has recognized this and has placed a limit of 1 per cent. Some other states attempt to use the basis of assessment as the true cash value and then take a certain portion of this as the amount to be taxed, but this again leads to under valuation and in my mind is a dangerous precedent to establish. There can only be one basis of value and that is the true cash value. The people are already complaining bitterly of their increased amount of taxes. It has become a most live and serious question before the American people, due largely to the fact that vast amounts of certain classes of property are under-assessed or entirely escape taxation, while the burden rests most heavily upon others whose property is visible or tangible, or of an easily ascertained value, or those who are conscientious in their desire to obey the law, and these certainly are entitled to the protection accorded by a limit being placed upon the amount which shall be charged against them for the support of the State and its institutions and the government.

I am fully aware that our needs are growing, that the country must not stand still, that our schools, benevolent institutions, our public buildings and public enterprises, roads and highways must be provided for and maintained, but if all the property were taxed, even at varying rates according to its productive ability, and the burden of tax was distributed as it should be, so that every citizen of the United States paid some part or a just amount for the privilege of citizenship and the corresponding privileges and blessings that go with it, I believe there would be little complaint. But I do believe that there should be some check in expenditures or at least in the distribution of these expenditures. In other words, we are building a net work of gravel roads and bridges and complete public improvements throughout the State, which will meet the needs of many years to come. There were outstanding January 1st, 1913, \$27,849,262.26 of Gravel road bonds.

During 1912, there were issued \$7,204,926.87 of the same kind of bonds, some were retired but 1913 was a big year in road building (I believe the figures are not yet available) so that we can safely say there are over \$32,000,000.00 of Gravel road bonds now outstanding. There should be unquestionably State Supervision to protect the people for this vast amount of money expended. But aside from this, I deem it unfair that we of today must be charged and pay for these vast improvements. I say this because all these Gravel road bonds and other securities, practically, are sold to be paid within ten years. Why ten years? Why not fifty, so that those who follow us and profit by these splendid improvements should bear their proportionate share as would be most just? The fact that some of these roads may not be as permanent as desired is not the question—make them permanent, even if at an additional cost. This \$32,000,000.00 of road bonds cost our citizens directly interested \$3,200,000.00 annually besides the interest. If divided into fifty years the cost would be \$640,000.00 annually. Under this arrangement we could build our roads properly and permanently, and relieve the tax payer of part of the burden that is now growing heavy indeed.

I am somewhat doubtful of our ability to change our method of living or the expensive tastes and requirements of the present age. Certain changes in our tax system would be of great benefit indeed toward distributing the amount of our requirements and placing them upon those who are justly entitled to pay, whether the methods I have advocated are best or not.

Many changes are needed from our present method of assessment, and it may be that in the years to come the income tax, placing its burden upon our citizenship in proportion to their ability, recognizing some of the higher ideals, will be the most efficient and most desirable way. But unless we make such a radical change and still attempt to preserve the basis of our present law, I sincerely trust that the ideas that I have advanced will be given such consideration as they merit, and perhaps suggest some method even better wherein we can secure the much needed improvements. (*Applause.*)

DISCUSSION

CHAIRMAN WHITE: Gentlemen, the program provides that the discussion following this paper shall be led by Hon. Charles F. Remy, of Indianapolis. I have the pleasure of presenting Mr. Remy.

MR. REMY: Mr. President and members of the Conference—The time which is allotted to me for the discussion of the papers this afternoon, I am going to consume in the discussion of the last paper which was read. I could not, or at least I would not, take exception to anything that was said by Mr. Lapp. What he said I believe we all agree to, and there is no room for other than commendatory statement.

It is apparent from the trend of the papers which have been read during this conference, and from the expressions heard, that those in attendance are almost unanimous in their advocacy of such changes in our taxing statutes as will require an amendment of the tax clause of the State's Constitution. If for taxing purposes we are to classify property, and provide different methods for different classes, and if we are to tax incomes, or if we are to exempt any property which is held and used for private purposes, then the tax provision of the Constitution of 1852 must be amended. In this conference at least, it is scarcely worth while to take the time to discuss the general question. The negative would go unsupported, except perhaps by Ex-State Tax Commissioner McCardle. We differ, however, as to the nature, scope and details of the new taxing laws we would enact. Mr. Wolcott doubtless assumed that there would be little or no difference of opinion on the question as to whether or not the tax clause of our constitution should be amended, and instead of presenting that question directly, has suggested a number of changes in the statutes, most of which would necessitate a constitutional amendment.

The first suggestion is, that the State should enact a law whereby certain kinds of intangible property shall be assessed at a low fixed rate. It is admitted by Mr. Wolcott that under present laws intangibles for the most part escape taxation. His reasoning is, that whereas men will not list their tangibles if taxed at the same rate as other property, therefore, it is necessary to make the rate low so that the owners of such property may thereby be induced to unfold to the tax man. I am not sure that the owner of intangibles should be thus favored, even if the plan were otherwise practical. Mr. Wolcott would say to the farmer who had his money invested in hogs, that he should be taxed at the true cash value of his property, but to the money lender, that if he would please list his notes for taxation, he should have a special privilege not granted to the owner of swine. Such a law would not be just. Justice should be placed above expediency. I think somebody in this conference

ought to speak especially for justice among taxpayers. In my opinion it is never expedient in the long run to enact an unjust law. I quite agree with the reader that intangibles cannot be reached by the same law that would reach a horse or a cow or a stack of hay; but that does not mean that it is necessary to grant special privilege to the owner of either class. We must find a way, or ways, to reach the intangibles. The promissory note should be taxed like the herd of swine, at its true cash value. It is argued that if the tax dodger who has his property in intangibles is required to pay his taxes like an honest man, he will remove his property to another state. If all states had uniform laws this would be impossible. To the end that uniform laws for the listing of intangible property may at an early date be enacted by the various states, I would suggest that the next session of the Indiana General Assembly provide for an interstate tax commissioner, and that by proper resolution other states be asked to enact similar laws. To be sure such officers would have only advisory powers, but I feel certain that ere long much of the property of the tax dodger could be reached. I believe, too, that there should be some method of publicity so that everyone could know the taxes paid by every other person. That, however, which is most needed in Indiana to reach intangibles, is an income tax law.

Mr. Wolcott's second proposition is, that money on hand or money on deposit, not drawing interest, should be exempt from taxation. Of course, such a law under our present constitution would not be valid. It would require a constitutional amendment. Such a law would not be just, and I cannot persuade myself that from any standpoint it would be wise.

We could not go before the people of Indiana and say that that is a just law. You cannot tell the farmers of Indiana that money is of no value. They know better. They know that it is of some value to them. You cannot make farmers and business men generally understand that it is just not to tax money, and at the same time just to tax hogs and corn and hoop poles; and if you do not have a just law, you cannot have a public sentiment in favor of the law. It is a poor citizen who would merely hold on to his money. He should be penalized rather than favored. On the same principle the farmer ought not to be taxed on his farm, if he decides to let it lie fallow, nor ought the manufacturer to pay any taxes on his plant if he decides to close down for a year, while he and his family travel abroad. It is argued that the money in

itself is of no value. So the farm, or the factory plant in themselves are of no value. The argument that money when taxed is listed at one hundred cents on the dollar, while real estate and personal property are not so listed, does not meet the question. All property should be listed at its true cash value. It does not appeal to me that because so small a portion of the money of tax payers is listed, that we should therefore grant a special privilege to that class of tax payers. It is said that men will perjure themselves, and that the law ought to be changed for that reason. I have very little faith in such a method of improving the morals of those who falsify their tax returns. We must find a way to make men list their money for taxation. Mr. Wolcott admits in his paper that in Indiana we have never enforced a penalty for a violation of the taxing laws. Why not make some arrests? We fill our work-houses and jails with vagrants. Why not send some tax dodgers to join them? In my opinion Indiana needs a state wide movement for the enforcement of tax laws. Such a movement as will awaken the people to the gross injustice under present methods, and create the public sentiment which we must have. If, by some means it could be brought to the attention of every home owner in Indiana that real estate is bearing an unjust proportion of the taxes, we would soon have a public sentiment which would bring about, not only better statutes, but a proper enforcement of all taxing laws. Such a movement and public sentiment may be slow in coming, but in my opinion it will come by and by. We will not hasten the day, however, by yielding to the tax dodger, and relieving him of the necessity of resorting to perjury in the listing of his taxables. Let us educate the people on the inequalities. When they see the injustice their desire for fair play as suggested by Mr. Adams, will help to better enforcement of all laws. I am sure that if the men in attendance in this conference, yes, if the Department of Indiana University which has this conference in charge, would take hold of the question in dead earnest, it would not be long until we would have the necessary public demand. The chief reason for defective laws, and the lack of public sentiment to demand an enforcement of the laws we have, is due to the fact that the tax dodgers have always been on hand at our legislatures, and have been active in creating sentiment which is adverse to proper laws and law enforcement.

I might here give a little instance of what took place some years ago in reference to a tax law which was prepared and presented

to the legislature. When Governor Hanly took the oath of office, and was preparing his message to the legislature, I had a conversation with him, interested then as I am now in the tax question. I called his attention to the fact, that the farmer is required to file a complete inventory of all his personal property. There are fifty specific questions he has to answer to the assessors. He has to say how many horses he has, how many cattle he has, how many hogs, how many hoop poles, how much cider in the cellar, how many gallons of molasses and so on. There are questions covering every kind of property that he has. I called the Governor's attention to the fact that the merchant is just asked one question, "Merchandise and value." He does not have to file any inventory at all. And I called his attention to the fact that the man who has one hundred thousand dollars invested in bonds or securities was required at that time only to answer questions like this: "Bonds and value." I suggested that there ought to be the same law applied to the bondholder and to the holder of securities, and that he should be required to inventory his bonds by giving the name of the corporation that issued them, and the series of the bonds; and that he ought to be required to give the name of the stock that was taxable that he put in; that he ought to be required to give an inventory, just like the farmer. The Governor said, "I believe that is right," and recommended it; and the bill was prepared. I think it was prepared in the Attorney-General's office, and it was a splendid bill. It was introduced in the House by John D. Volz, a member of the House at that time. It passed the House with three or four votes against it, but it hadn't more than passed the House until the tax dodgers found out about the bill, and they had a meeting in the city. I was watching around, because I was helping to put the bill through, not as a paid lobbyist, but because I was interested in the matter; and I got in the tax dodgers' meeting, and listened to all they said. They said it would never do, and that they must kill it; and they did kill it. It never saw the light of day in the Senate.

Now wouldn't that appeal to anyone as a just measure? Does it not appeal to you; and would not it appeal to the people of the state as a just measure? Do you wonder that the farmers are complaining about our laws when they have to answer fifty specific questions, and file a complete inventory of their personal property, when that is not required of the merchant and the holder of intangibles? Certainly it is not required in the same way, although

there has been some improvement in that particular since the days of Governor Hanly.

Mr. Wolcott's third suggestion is, that there be an exemption of household furniture and personal effects to the value of a certain sum which he does not name. This would, of course, require an amendment to the constitution. I heartily agree with the reader of the paper. But why exempt only personal property?

• We should exempt also a like amount of the value of a homestead owned and occupied by the tax payer. Citizens would thus be encouraged to own their own homes. Besides, it would help lift the burden of taxation which under any system rests so heavily upon real property. The law should also provide for the exemption, or partial exemption, from taxation of real estate on which forests are being preserved and produced. Something should be done to induce the growing of timber. Our present system leads, not to the conservation, but to the destruction of timber. The farmer cannot afford to plant out his farm in timber.

The next suggestion made by the reader of the paper is, that the State Tax Commissioners should be given power to equalize assessments of personal property. I concur with him in all that he has said on that subject. Such power could be given the Board, however, without any amendment of the tax clause of the State Constitution. It is a mystery why such a law was not enacted long ago.

It would perhaps improve the administration of our tax laws if county and township assessors were appointive, rather than elective. However, much would depend on the character of the law. It would be no improvement if appointments were not made under civil service rules. The faction of a party in power would make the appointments as a reward for political service. The people in Indiana have always elected their county and township officers, and they would be reluctant to agree to a change. The seat of the trouble in Indiana lies with the system rather than with the assessors who have been elected by the people. For the most part, particularly in country districts, they have been faithful servants. The poorest assessors I have known have been among those appointed to assist in the listing of city property. I have lived in Indianapolis seventeen years, and in that time I have been assessed but once. The other times I assessed myself. Each year I filled out the blank left by the assessor, and the prepared list was handed to him in my absence.

The one time that I was assessed was year before last. I said to myself I am going to see whether they will assess me in the City of Indianapolis. Down at Columbus, where I lived before I moved to Indianapolis, the assessor came up to me, to my house or office, and we sat down together and made up a list of the property on which I should be assessed and he had me take off my hat and hold up my hand and swear to my list. When I used to be on the farm, where my father lived, the assessor would come out into the field where my father was, and sit down on a plow beam, and they would make out the list and give the exact number of horses and cows, and approximate the number of bushels of corn in the crib, and all that; and when they got through my father would be sworn to it.

After I came to Indianapolis I found a new condition, and I said to myself I will see whether or not I can be assessed; and I said to my wife, "You tell the assessor to come to my office," and she told him. He said, "No, no, that is not the way; your husband don't understand it." When she reported that to me I said, "You tell him I do understand it; you tell him to come to my office." I finally got him to come to my office. That was in the spring of 1912. I made out my tax list in his presence and signed it, and he started off. I said, "Wait a moment. You are not through." He said, "What else is there to be done?" "Why," I said, "don't you know what is to be done?" "No," he said, "I have done everything that I know." "Well," I said, "you have to swear me," and I turned to the statute and showed him that I had to be sworn to my tax list. Then the assessor said all right, but he didn't know how to do it; and I had to repeat the oath for him. And so I swore to my tax list. If I ever was assessed in Indianapolis that was the time. I don't know for sure but what I assessed myself then. But in the country we have had a better method of assessment. The assessors have done their work more nearly according to law. I am not here to give any advice to the taxing officers. I am just down here as a lawyer who is away from his office and paying his own expenses because he is interested in this subject. For twenty years I have been interested in the tax question, and it does seem to me that the taxing officers ought to require the men in charge of individual assessments in the big cities, to ask each tax payer what intangibles he has, and ask him "How much money have you in bank?" He has the right to do it, and he ought to do it. That is the way it is done in hundreds of townships

in the State of Indiana. Particularly is that true in the country, and they get the property in the country better. Some have said in this conference that the farmer only pays forty or fifty per cent. on his land. Mr. Milligan yesterday spoke about a man who had a note for a thousand dollars, a promissory note bearing four or five per cent. interest, and he had to pay two and a half or three per cent. taxes out of that four or five per cent., and that he cannot afford to do it. You know that the farmer in Indiana, if he didn't live on his own farm and work mighty hard, and didn't have pretty good rains, would not make any six per cent. on the money invested; and the man who loans his money at six per cent., and gives it in at full value is getting just as big a return, on the average, as the farmer on the average farm; and he should give it in. Nothing else is just, and this conference ought not to stand for a law that does not appeal to justice.

If we are going to have a great movement in this State for better conditions, for better laws concerning taxation, we must appeal to men's ideas of right and wrong. Nothing but a moral question forms the basis of any great movement. Get the people to understand that they are not having fair play. That was a splendid suggestion of Dr. Adams this morning. If the people in this state could understand the inequality, the iniquity, under the present system, they would demand substantially all the laws that have been suggested here, that have the elements of justice back of them. If every man who owns land understood that the men who have their money in intangibles are not paying taxes, and that the taxes are falling upon the man who has the land, they would not stand for it. As I said a moment ago, the seat of the trouble in Indiana lies with the system, rather than with the assessors who have been elected by the people.

The Wisconsin plan, in my opinion, is the one which should be adopted in Indiana. That is the plan that was suggested here this morning. There they have a property tax, and they have the income tax. The tax on the property is levied by the assessors elected by the people in their various townships and counties. That is the general property tax, but the income tax is levied by the supervisors, or the appointees, of the State Board of Tax Commissioners; and these assessors of income become the supervisors of assessment for general property. If a man has an income tax of fifty dollars and he has a property tax of forty-five dollars they subtract his property tax from the income tax, so that he does not

pay on both; that induces the man to give in his intangibles, they are going to get his income tax anyhow.

We will never get a just tax system in Indiana until we have an income tax. There you get at indirectly the taxation of intangible property. You cannot do it by taking intangibles off of the tax list. A man who will not give in his property if taxed three per cent., would not give it in if taxed at a half per cent.

I fully agree with State Tax Commissioner Wolcott as to his last suggestion, that the basis of taxation of all property should be its true cash value, and that there should be a limit to the rate of assessment. The tax clause of our Constitution should be so amended. Mr. Wolcott's argument in that branch of his paper is strong and unanswerable. Under our Constitution of 1852, there was no limit to the rate of assessment, but it did provide for a limit to municipal indebtedness, which provision has proved to be a valuable safeguard.

In the list of the new laws suggested by Mr. Wolcott I am surprised that he has not named the income tax. A new constitution should open the way for taxing of incomes. Such a law is the surest way of placing the burden of taxation where it properly belongs, and the surest way of reaching the tax dodger who keeps his fortune in intangibles and makes false returns to the assessor.

While I differ from State Tax Commissioner Wolcott as to some of the laws he would enact, I do agree with him that the tax clause of our constitution must be amended, and in conclusion I submit the following as the tax clause which should be incorporated in Indiana's new constitution which I hope we are soon to have:

“Sec. 1. The General Assembly shall have power to provide by law, an equitable system for raising state and local revenue. All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax, and shall be levied and collected for public purposes only. All property assessed for taxation shall be assessed at its true cash value; but the maximum rate of taxes that may be levied for all purposes shall not in any one year, in any taxing district, exceed fifteen mills on each dollar on the total valuation of all the property as listed and assessed for taxation in such district. The power of taxation shall never be surrendered, suspended or contracted away.

“Sec. 2. Public burying grounds, and all property both personal and real used exclusively for municipal, educational, literary,

scientific, religious and charitable purposes, shall be exempt from taxation; also household goods to the amount not exceeding in value the sum of \$150.00 for each individual, and real estate to the value of \$150.00, when occupied by the individual as his home.

“Sec. 3. Laws may be passed providing for the taxation of incomes, and such taxation may be either uniform or graduated, and may be applied to such incomes as may be designated by law; but a part of each income, not exceeding \$2,000 may be exempt from taxation.

“Sec. 4. Laws may be passed providing for taxation of the right to receive, or to succeed to, estates, and such taxation may be uniform, or it may be so graduated as to tax at a higher rate the right to receive, or to succeed to, estates of higher value than estates of smaller value. Such tax may also be levied at different rates on collateral and direct inheritances, and a portion of each estate, not exceeding \$20,000, may be exempt from taxation.”

That is all I care to say in the discussion of the paper that was read this afternoon by Senator Wolcott; but being a member of the Committee appointed by the Chair yesterday to report upon an organization for the Indiana Tax Association, I would like to supplement, or rather reinforce, what was said by Mr. Lewis this morning in making the report as Chairman of the Committee.

Your committee endeavored to select as the first officers, men whose characters would guarantee that the new organization would get started right, and that is important. I think it is fitting that we should select as the first president a man who, more than anyone else, is responsible for the success of this conference, and this conference has been a success. Many similar conferences have been held in various parts of the country, which conferences have been attended by some who have been with us at this meeting, particularly the gentlemen who are here from other states. It has been said by these gentlemen that, all things considered, this is one of the best tax conferences ever held in this country. It is gratifying to hear these words of commendation.

The good influence of this meeting will not end with our adjournment. The proceedings of this conference, which are to be published, should have the widest circulation, to the end that many hundreds of the citizens of Indiana may be better informed on questions of taxation, and be the better prepared to assist in the reforms which must come. A wide circulation of the proceedings of this conference will help to educate leaders as to the injus-

tice of present tax laws, and will help to create that public sentiment which will be necessary, if any real reforms are brought about. The people must be aroused. I mean the great middle class, particularly the home owners. If the home owners of Indiana knew the unjust tax burden they were now carrying reform of our tax laws would be hastened. The Indiana Tax Association should see to it that the people of Indiana become familiar with the defects of our laws.

There is danger of an organization of this kind falling into the hands of tax dodgers. They control legislatures, oftentimes good men; and they are not members of it either. They can get into and become members of this organization, and I believe that a movement of this kind should be in the interest of fair play, should be in the interest of all the citizens of the State of Indiana, as was stated by Mr. Lapp here this afternoon. And if we are going to have a conference that stands for justice we cannot have such a conference if it is controlled by the men who do not pay their taxes. We must have an association that will stand for such amendments to the constitution as will permit the enactment of an income tax, and will permit the classification of property; permit the enactment of such laws as will reach the tax dodger. The people of Indiana will expect the legislatures and constitutional conventions to find a method, as they found a method in the State of Wisconsin, of getting at the tax dodger in some way. They have gotten at him in that state better than they have in any other state of the Union. We must take off our hats to Senator LaFollette's state, whatever we may think of him. So far as the laws in that state go, measured by the standard of justice between man and man, it can be said that there are no statutes in any state of the Union that are comparable. We must have a tax conference and a tax association in Indiana that will not be dominated by any special interests; and we cannot have it and maintain it indefinitely unless it is controlled and managed by this University.

You know, as I know, that the popularity of Indiana University has grown year by year until from one end of the State to the other the people believe in the University; and they will continue to believe in it until this University, like some universities I might name, in other states, has stood, not for justice, but for special privilege.

Now I am admonished by the presiding officer that my time has expired, and I must close. I only wish to say further, that

I hope the work of this tax conference will be continued by the Tax Association in direct connection with Indiana University. Let us do what we can to make the future meetings of the Indiana Tax Association even better than this one has been. I thank you. (*Applause.*)

CHAIRMAN WHITE: I am just wondering if we are going to have a campaign of punishment for the tax dodgers of this state who make improper returns? Who is going to throw the first stone?

We only have a few minutes before it will be necessary to adjourn in order to catch the 4:10 train. There was a Committee on Resolutions appointed early in the conference to report on resolutions. Has that Committee any report to make? Are there any resolutions?

REPORT OF COMMITTEE ON RESOLUTIONS

MR. DAN M. LINK: Mr. Chairman, the Committee has had submitted to it no resolutions, consequently what it has to report is formal and very brief. It offers the following:

Be it Resolved, That this, the first Indiana Tax Conference, commends the efforts of Indiana University to bring together the tax payers of the state for the purpose of studying our tax conditions and considering improvements therein; and we especially express our appreciation of the labors of Dr. Bryan, President of the University, and Dr. Rawles, head of the Extension Division, in taking the initiative in inaugurating this conference.

Be it Further Resolved, That it is the sense of this conference that any general improvement in taxing conditions can only be brought about by the education of the tax payers as to their rights and duties as citizens, and the arousing of public sentiment in favor of such amendments to or changes in the present tax laws as may cause a more equitable adjustment of the burden of taxation, and that the object and purpose of this Association shall be to stimulate public interest in the study of taxation, to gather and compile statistics, and to print and circulate the same, and such other literature as the Association may deem worthy of study.

Be it Further Resolved, That this conference extends its thanks to the distinguished experts on taxation from other states who have, without compensation, come long distances to address this conference.

The foregoing is signed by the Committee, Dan M. Link, E. H. Wolcott and Oscar L. Pond. I move its adoption.

The motion was seconded.

CHAIRMAN WHITE: It is moved and seconded that the report of the Committee on Resolutions be adopted by the conference. Are you ready for the question? All in favor of the same will signify by saying aye. Contrary, no. It is carried, Mr. Secretary.

Is there anything further to be presented from the Committee?

MR. DAN M. LINK: No, Mr. Chairman.

MR. W. K. STEWART, of Indianapolis: Mr. President, I should like to move that a vote of thanks be tendered Indiana University for the kindly hospitality that has been extended to us.

The motion was seconded and agreed to.

CHAIRMAN WHITE: Is there anything further to come before the conference? If not, a motion to adjourn will be in order.

MR. DAN M. LINK: Mr. Chairman, I move that the conference do now adjourn.

The motion was seconded and agreed to, and the conference adjourned, *sine die*.

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