The Taxation of Tangible Personal Property

by

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The problem of taxation has always been important. In all but the crudest stages of governmental organization there has been a need for public revenue. The sources have been numerous and are numerous today. As civilization has progressed and governments have become better organized the need for revenue has greatly increased. Many taxes have been levied and served for a time, but each seems to outgrow its usefulness, and the system must be periodically revised.

In early times the poll tax was adequate. Then there was a property tax which fell on the produce of land. Later, the tax was levied on land valued on the basis of rentals, arbitrary assessment, or sale price. Society continued to develop and there was a gradual increase in the simpler kinds of personal property consisting of clothing, money, and luxuries. The personal property was largely tangible. It had to be included in the general property levy if there was to be just taxation. This was fair because the personalty belonged chiefly to the landowners and was in tangible form.

A new stage comes in and we find the growing importance of commerce. There is free labor, and the growth of capital in various forms. Personal property in the form of both producer's and consumer's wealth increases rapidly. Finally in our modern industrial system we find that realty is far exceeded in value by personal property. The general property tax is gradually expanded to cover new forms of property as they arise.

In Europe the general property tax has become a tax on realty

and the various forms of personalty are reached more effectively and fairly by special taxes. We have not progressed so far in most of the states. We have not revised our tax system to meet modern conditions. It is a notorious fact that the general property tax fails to reach the major portion of personal property. Various expedients have been offered to reach this kind of property, chief among which are stringent administration, special taxes, and the income tax. Some states have taken one course or another but the majority have made little change.

Where the old system prevailed, a large part of tangible personalty esaaped through exemption. The assessor purposely failed to list a large part of merchants' and manufacturers' capital through fear of driving it away. Intangibles escaped due to concealment by the owner.

Our total wealth in 1850 was $7,135,780,000 of which land represented 59.8 per cent. In 1920 the total had risen to $302,000,000,000 of which land represented only 37.6 per cent.

In New York state in 1843 the assessed value of real estate was $475,000,000 and of personal property $120,000,000. In 1911 the amounts were 10 billion and $500,000,000 respectively. The returns for tax purposes of real estate had increased twenty times while that of personalty had increased only four times. This is farcical when it is remembered that New York has become our most important industrial state. Actually the value of personal property is many fold that of real estate. Thus the general property tax has completed the cycle pointed out by Seligman and has become what it was at first--essentially a tax on realty.

We find that the first taxes on personal property in Virginia were imposed during the French and Indian wars. Under

the constitution of 1898, the only personal property listed was horses and mules, coaches, stages, gigs, and slaves. Slaves under twelve years of age were not taxed. In 1789 the rate was ten shillings a head. This was reduced to one and six pence in 1792. In 1800 the rate was forty-four cents. It was subsequently changed several times varying from twenty-five to seventy-nine cents per head.

The tax on horses and mules remained at twelve cents a head during most of the period from 1792 to 1842. The tax on vehicles varied from six and a half to seven and a half dollars according to style and character, plus ad valorem tax, during the period from 1789 to 1841. After 1841 the taxes were levied on a flat ad valorem basis. In 1842 the general assembly added watches, pianos, gold and silver plate, and clocks to the taxable list.

In the constitution of 1851 all personal property was defined as taxable, and for the first time was made to include "money" and "credits", and all capital invested in any business (except agriculture) on which no license tax was levied.

We find that the first tax on intangibles was imposed in 1842 when bonds were taxed at two and one-half per cent of their interest.

The general assembly for the first time in 1854 levied a general tax on personal property. The rate on slaves was sixty cents per head while a tax of three and one-third per cent was levied on the interest on bonds and on dividends on bank stock. These rates were doubled in 1856.

About one-third of the taxes were derived from this class of property in 1851, about one-half in 1855, and one-third in 1859. The decrease was due to higher rates on real estate and the constitution of 1868, the only personal property listed was horses and mules, carriages, wagons, pigs, and clocks. Slaves under twelve years of age were not taxed. In 1799 the rate was ten shillings a head. This was reduced to one and six pence in 1809. In 1833 the rate was forty-four cents. It was subsequently changed several times ranging from twenty-five to seventy-nine cents per head.

The tax on horses and mules remained at twelve cents a head during most of the period from 1799 to 1861. The tax on vehicles varied from six and a half to seven and a half dollars according to style and character, plus ad valorem tax, during the period from 1799 to 1861. After 1861 the taxes were levied on a flat ad valorem basis. In 1862 the general assembly added watches, pianos, gold and silver plate, and clocks to the taxable list.

By the constitution of 1861 all personal property was subject to taxation, and for the first time was made to include "money" and "credits". [illegible] capital invested in any business (except agricultural) on which no license tax was levied.

The first income tax of [illegible] was imposed in 1863 when [illegible], the tax was one-half per cent of their incomes.

The general assembly for the first time in 1864 levied a general tax on [illegible]. The rate on slaves was sixty cents per head while a tax of [illegible] per cent was levied on the interest, or rents and dividends on bank stock. These rates were doubled in 1865.

About one-third of the taxes were derived from this class of property in 1851, about one-half in 1855, and one-third in 1860. This increase was due to higher rates on real estate and licenses.

The constitution of 1851 taxed "all property", and enunciated the principle on which property, as the supposed measure of the tax payers' ability, has been taxed in Virginia ever since.

Schedule B of the Virginia Tax Laws lists tangible personal property as follows:

(1) The aggregate number of horses, mules, asses and jennets, and the value thereof.

(2) The number of cattle, and the value thereof.

(3) The number of sheep and goats, and the value thereof.

(4) The number of hogs, and the value thereof.

(5) The aggregate number and value of all family carriages, stage coaches, carts, wagons, carry-logs, spring wagons, carryalls, gigs, buggies, sleighs, automobiles, bicycles, and vehicles of like kinds, to either of those enumerated.

(6) The aggregate value of all books and pictures, except so far as the same are exempt by law.

(7) The aggregate value of all tolls of mechanics.

(8) The aggregate value of all farming implements.

(9) The aggregate value of all felled timber, railroad ties, telegraph, telephone or electric light poles, piles, mine props, cord wood, hoop-poles, staves, and bark which has been felled for sale by other than the owner of the land upon which it has been felled within twelve months preceding the first day of February of each year.

(10) The number of watches and clocks, and the value thereof.

(11) The aggregate number and value of pianofortes, melodeons, harps, organs, and musical instruments of all kinds.

(12) The aggregate value of all household and kitchen

licenses.

The substitution of this term, 'all property', and assertion of the principle of block property, as the accepted measure of the tax payers' ability, has been found in Virginia ever since.

Schedule A of the Virginia tax laws lists taxable personal property as follows:

(1) The aggregate number of horses, mules, asses and jennets, and the value thereof.

(2) The number of cattle, and the value thereof.

(3) The number of sheep and goats, and the value thereof.

(4) The number of hogs, and the value thereof.

(5) The aggregate number and value of all family carriages, stage coaches, carts, wagons, carry-alls, spring-wagons, automobiles, buggies, sleighs, motorcycles, bicycles, and vehicles of like kinds, to either of the aforesaid.

(6) The aggregate value of all boats and vessels, except such as the same are exempt by law.

(7) The aggregate value of all tolls in collection.

(8) The aggregate value of all farming implements.

(9) The aggregate value of all tobacco, cotton, molasses, tion, turpentine, [illegible] grain, wine, [illegible] and hay, all which has been raised for sale by other than the owner of the land upon which it was grown, [illegible] on the first day of February of such year.

(10) The number of watches and clocks, and the value thereof.

(11) The aggregate number and value of pianofortes, melodeons, harps, organs, and musical instruments of all kinds.

(12) The aggregate value of all household and kitchen

furniture.

(13) The aggregate value of gold and silver plate, plated ware, diamonds, cameos, or other precious metals used as ornaments or jewelry, not including such subjects as are embraced in any other number of this schedule.

(14) The aggregate value of grain, tobacco, and other agricultural productions in the hands or possession, legal or constructive of a purchaser.

(15) The number of boats or water craft under five tons burthen, used for business or pleasure, and the aggregate value thereof.

(16) The number of ships, tugboats, barges, boats, or other water craft of five tons burthen and over, and all other floating property not required to be assessed by the State Corporation Commission, used for business or pleasure, and the aggregate value thereof, with their tackle, rigging and furniture, and all else that pertains to them, or of any share or interest therein, though the said ships or other water craft, or any of them, may not be, at the time when the assessments are made, in the waters of Virginia.

(17) The aggregate value of all shot-guns, rifles, muskets, and other firearms, bowie knives, dirks, and all weapons of a similar kind; provided, that all firearms issued by the State to members of volunteer companies, or for purposes of police, shall not be listed for taxation.

(18) The value of all seines, pound nets, fykes, weirs, or other devices for catching fish.

(19) The value of all toll bridges, turnpikes and ferries, except steam ferries, owned and operated by a chartered company.

(20) The value of all poles, wire, switchboards, et cetera, telephone or telegraph instruments, apparatus, et cetera, owned by any person, firm, or association or company (not incorporated).

(21) The aggregate value of all other tangible personal property not specifically enumerated in this or other schedules, and not exempt from taxation; provided, that grain, tobacco and other agricultural productions in the hands of a producer of the same are hereby declared exempt from taxation as property under this schedule.

The state corporation commission assesses the property of all public service companies. The rolling stock of steam railroads are not subject to tax by the localities. The rolling stock of electric railway companies is assessed by the commission which also determines the portion of such property which may be taxed by the various localities in which the road operates. All other tangible personalty is taxable in the locality where located on the basis of the assessment by the Commissioner of the Revenue.

Virginia has not found the general property tax a good basis for the tax system. Real estate is assessed by special officers appointed for the purpose and residing in the locality. Personal property is assessed by the Commissioners of the Revenue who have to rely largely on the individual to make a true statement of his property and its value. Intangibles and a considerable portion of the tangible property escapes due to concealment. Thus one commissioner of the revenue recently stated that when we ask a taxpayer the amount and value of jewelry owned we are told that he owns no watches, diamonds, pearls or other jewelry. However, we read in the papers a few weeks later that the same party has been robbed of jewelry worth several thousand dollars, a part of

(20) The value of all money, notes, solvent credits, [illegible], telephone or telegraph instruments, apparatus, et cetera, owned by any person, firm, or association of persons (not incorporated).

(21) The aggregate value of all other tangible personal property not specifically enumerated in this or other schedules, and not exempt from taxation, provided, that [illegible], tobacco and other agricultural products in the hands of a producer or the [illegible] [illegible] under this paragraph.

The State Corporation Commission assesses the property of all public service corporations. The rolling stock of steam railroads are not subject to tax by the localities. The rolling stock of electric railway companies is assessed by the Commission which also determines the portion of such property which may be taxed by the various localities in which the line operates. All other tangible property is taxable in the locality where located on the basis of the assessment by the Commission of the [illegible].

Virginia segregates [illegible] the general property tax [illegible] for the [illegible]. Land [illegible] is assessed by special officers appointed for the purpose [illegible] residing in the locality. Personal property is assessed by the Commissioner of the Revenue who have to rely largely on the individual to make a true statement of his property and its value. [illegible] a considerable portion of the tangible property and [illegible] is [illegible]. Thus one [illegible] of the personal property [illegible] that each of [illegible] the [illegible] and value of [illegible] owned is [illegible] as [illegible] valuable, furniture, jewelry or other property. However, we [illegible] in the [illegible] later that the [illegible] [illegible], a [illegible] of which has been in the family for generations.

The commissioner assesses those who make no returns and usually raises slightly the individual's returns as a matter of policy. In Virginia realty is grossly under-assessed.(as is personal property.) This is true to an even greater degree in the case of both tangible and intangible personalty.

In 1887 the assessed value of tangible personalty was $43,000,000 around which figure it fluctuated until 1900 when it rose to $46,000,000. In 1910 it was $85,000,000 and in 1914 $108,000,000.

The ratio of the value of this class of property in 1913 to that reported in a census of 1910 was 46.8 per cent. Thus over 50 per cent of this class of property was escaping taxation.

The constitution requires that all property be assessed at its "fair market value". But this is notoriously not the case under our present system. It is neither assessed at its "fair market value" nor at the same proportion of this value as between individuals and localities. For the purposes of taxation in 1920 the average automobile was worth $428 in Halifax and $36 in Buchanan County. The average horse in Dinwiddie County in 1921 was worth $98 and in Grayson County $26. Cattle were worth $49 each in Henrico County and $11 each in Floyd County. Sheep were assessed at $7 each in Clarke County and $1 each in Buchanan County. Watches were listed at $23 each in Nottoway County and $1 in Grayson County for the year 1920. Clocks were worth $16 each in Henrico and only $1 each in Floyd County.

The percentage of assessed value to the census value for the state on horses and mules is 51 per cent, on cattle 38 per cent, and on sheep 30 per cent. On the average throughout the state, 14 percent of the horses and mules are escaping taxation which has been in the family for generations.

The constitution [illegible] that [illegible] be treated and equally [illegible] the individual's property as a matter of policy. In Virginia nearly all property [illegible] (as in personal property) [illegible] at the same [illegible] in the case of both tangible and intangible [illegible].

In 1927 the assessed value of [illegible] property was $[illegible],000,000 which [illegible] until 1930 when it rose to $[illegible]. In 1930 it was $[illegible],000,000 and in 1934 $[illegible],000,000.

The ratio of the value of this class of property in 1913 to that reported in a decade [illegible] per cent. [illegible] over 50 per cent of this class of property was [illegible] taxation.

The constitution requires that all property be assessed at its fair market value but this is very loosely and [illegible] under [illegible]. It is [illegible] "fair market value" [illegible] this value to [illegible] individuals [illegible] in 1930 the average [illegible] was worth [illegible] in [illegible] County. The average [illegible] in [illegible] County in 1931 was worth $[illegible] and [illegible] County [illegible] were worth $[illegible] each in [illegible] County [illegible] in [illegible] County. There were assessed at [illegible] County [illegible] in [illegible] County. [illegible] in [illegible] County and [illegible] in [illegible] County for the year 1934. [illegible] were worth $15 each in [illegible] and [illegible] in [illegible] County.

The percentage of assessed value to the market value for the state as a whole [illegible] per cent, [illegible] per cent, and [illegible] about 20 per cent. [illegible] state, [illegible] of the [illegible] are [illegible] taxation.

as are 18 per cent of the cattle, 54 per cent of the hogs, and 20 per cent of the sheep. As between counties, however, 53 per cent of the horses and mules escape in one while less than 1 per cent escape in another. The same holds true in general for other kinds of live stock.

The individual inequalities are even greater if we may take the assessment of real estate as a guide. In Carroll County the average assessed value of real estate to true value is 11.2 per cent. However the individual assessment range from 2/5 of 1 per cent to 160 per cent of the true value. In Brunswick County the average ratio is 55.3 per cent while the individual ratio ranges from 5 to 250 per cent.

While the undervaluation is great and unequal in Virginia, in the case of livestock, we must conclude that it is even greater in other classes of tangible personal property if the experience of other states is to be taken as a guide.

In Illinois the assessor is required to call on each resident of the state during the assessment period and require him to fill out and sign an itemized schedule. In case of sickness or absence a blank is left to be filled out and returned to the assessor. If the taxpayer fails to fill out the blanks, he must submit to an arbitrary assessment.

Before 1879 the law permitted, and since 1879, has required the schedules to be submitted under oath. The assessor may examine any one under oath as to the property of one who refuses to fill out the schedule.

The assessor is supported by severe penalties for the securing of full returns of personal property. Since 1879 the law provides for a 50 per cent addition to the assessor's estimate of the property of a person who refuses to make out a schedule. In addition as are in our west of the cattle, 80 per cent of the hogs, and 80 per cent of the sheep. As between counties, however, 25 per cent of the [illegible] in one [illegible] less than 1 per cent [illegible]. The [illegible] in general the other kinds of live stock.

The individual landlord's [illegible] even greater [illegible] any case the [illegible]. In general [illegible] the average [illegible] value of [illegible] is 13.5 per cent. [illegible] the [illegible] from 2/3 of 1 per cent to 150 per cent of [illegible]. In [illegible] the average [illegible] per cent [illegible] range from 0 to 150 per cent.

While the [illegible] in Virginia, in the case of [illegible], it must [illegible] that it is even greater in other [illegible] the [illegible] or other [illegible] to [illegible].

In Illinois the [illegible] of [illegible] rent- [illegible] of the whole [illegible] the [illegible] and [illegible] [illegible] or [illegible] a [illegible] the [illegible]. [illegible] he must [illegible].

Before 1870 [illegible] 1870, [illegible] the [illegible]. The [illegible] the [illegible] of the [illegible] to fill out the [illegible].

The [illegible] for the [illegible] is [illegible] of [illegible]. Since [illegible] the [illegible] for a [illegible] of the [illegible] of a [illegible]. In [illegible] the failure to list is made a misdemeanor punishable by fine. An oath to a false return renders one liable to prosecution for perjury. If property is discovered which has been escaping taxation, back taxes plus 10 per cent interest is collected. A law passed in 1898 provides for a fine not to exceed $5,000 or imprisonment for one year, or both in case false returns were purposely made. As a spur to enforce this law the states' attorneys were allowed a fee of $20 plus 10 per cent of all fines collected in each case of conviction. In order to make the assessors toe the mark set by law in making assessments special punishment by fine and imprisonment is provided for in case of delinquency in performing their duties.

Thus we see that no stone is left unturned by the legislature in providing penalties to secure proper enforcement of the tax laws. If there are any defects, and we shall find many, it rests not with the laws but with the system or the administration.

A few examples will show the difficulty. The full value of diamonds in Chicago in 1911 was only a half million dollars according to the tax tickets. We find that there is not a single melodian or organ in metropolitan Cook County. In Perry County pianos are valued at $15 apiece. In 1911 the average value of watches and clocks was only $6.50 for the state. The total number in the state according to the tax tickets, was only 328,306. Only one person in 188 could afford a timepiece in Cook County (Chicago). While Kane County has only one twenty-fifth the population of Cook County it has practically the same number of timepieces. It is hardly possible to find a better example of the inequalities of assessment as between different localities.

In Ohio stringent administration has been used to reach the taxpayer to list it [illegible] a misdemeanor punishable by fine. In order to [illegible] and liable to prosecution for perjury. [illegible] which has been escaping taxation. [illegible] per cent [illegible] is collected. A law passed in 1936 provides for a fine not to exceed $5,000 or imprisonment for one year, or both in case false returns were purposely made. [illegible] attorneys were allowed a fee of [illegible] per cent of all [illegible] collected in such cases of [illegible]. In order to make the assessors [illegible] the [illegible] penalized by fine and imprisonment [illegible] in performing their duties.

Thus we see that [illegible] by the legislature in providing penalties to secure [illegible] of the tax laws. If there are any [illegible] with the laws [illegible].

A few examples will show the [illegible] of diamonds in Chicago in 1912 [illegible] according to the [illegible]. [illegible] a single [illegible] are valued at [illegible]. [illegible] value of watches and clocks [illegible] the state. [illegible] in the state according to [illegible] only 198,000. Only one person [illegible] in Cook County (Chicago). [illegible] the population of Cook County [illegible]. It is hardly [illegible] better example of the inequalities in assessment as between different localities.

In this [illegible] have been [illegible] personal property. The taxpayer is required to make out a list of his property and state its true value. The report must be sworn to. Failure to make full returns continued so flagrant that a law was passed in 1917 making it a serious offense to make false returns. This caused better returns to be made but the larger part of this kind of property continued to escape. Prosecution for perjury has been rare for two reasons. First, the returns have been so universally low that a large percentage of the taxpayers would have to be prosecuted and second, the cost of prosecution would have been prohibitive. The auditors are given power to increase the total amount of returns when to their own knowledge, or information furnished by assessors, or when on the basis of shrewd guesses they have reason to believe that an individual is making false returns. One auditor increased the returns for a manufacturer's stock from one to five million dollars. Such action is rare. It means political suicide because the auditors are elected by the people. The Board of Revision in most counties merely signed their names to the findings of the auditor as a matter of course. The State Tax Commission ordered a reappraisement of property in 1920 but the order was later revoked. The last appraisal took place in 1910. The cities opposed the order due to the great increase in the value of urban property while the counties voiced their opporition due to fear of increased taxes. Eighteen counties made the assessment before the order was revoked and are penalized by having to pay too high a proportion of the state taxes.

The local assessors are elected biennually. Capable men are seldom secured due to low compensation and the general discredit of the office. Provision is made for punishment of delinquent personal property. The taxpayer is required to [illegible] a list of his property [illegible] true value. [illegible] assessor. Failure to [illegible] that a [illegible] trice returns. [illegible] larger part [illegible] ration [illegible] returns [illegible] the taxpayer [illegible] ownership [illegible] power to [illegible] knowledge. [illegible] basis of [illegible] vidual [illegible] for a [illegible] took notice [illegible] ture [illegible] counties [illegible] as a [illegible] commissioner [illegible] the last [illegible] order [illegible] while [illegible] lower [illegible] revenue [illegible] the whole [illegible].

The local [illegible] rates [illegible] of the [illegible] officers but no guides are furnished for the performance of their duties.

Ohio is an important industrial state. However, personalty pays far less taxes than does real estate. The small thinly populated counties pay a higher ratio on personalty than do the large wealthy counties which probably contain most of the personal property. In five of the former group personalty pays fifty per cent while in five of the latter group it paid only thirty per cent of the state taxes.

Of all tangible personalty, the largest percentage of returns for taxation is made in the case of livestock. A comparison of the census report of 1920 and the tax returns for the same year shows 98 per cent of the horses reported at 95 per cent of their value. The return for mules was 105 per cent of the census report but the value was only 90 per cent. 89 per cent of the cattle were reported at 84 per cent of their average value or 76 per cent of their total value. The total number of sheep and swine reported were in each case 85 per cent of the census report. Poultry was returned at full average value but only about 60 per cent was reported. This is in spite of the fact that census report was as of January 1st while the tax returns were of April 10th.

The value of farm implements is only 37 per cent of the value reported by the census.

The under-returns of merchant's and manufacturer's stock is the most striking of all classes. The auditors report an escape of at least 10 to 75 per cent of this class of property. In one county a merchant report $29,000 worth of stock for taxation and claimed $91,250, on the same stock when seeking credit at a mercantile agency. When questioned he explained that the former was cost and the latter selling price. The law does not make clear officers had no status [illegible] depended for the performance of their duties.

While it is [illegible] [illegible] [illegible]. [illegible], [illegible] more than four times that [illegible]. The small [illegible] populated countries have a [illegible] than do the large [illegible] countries [illegible] [illegible] [illegible]. [illegible] [illegible] the [illegible].

Of the [illegible], the [illegible] percentage [illegible] for taxation [illegible]. A comparison of the census reports of [illegible] [illegible] 50 per cent [illegible]. The [illegible] per cent [illegible] the value was only [illegible] per cent [illegible] as 50 per cent [illegible] total value. [illegible] per cent [illegible]. This is [illegible] while the [illegible].

The value [illegible] reported by the census.

The [illegible] the most [illegible]. [illegible] of an acre [illegible]. [illegible] [illegible] [illegible] [illegible] rental [illegible] [illegible] cost and the latter selling price. [illegible] which is to be used as a criterion of "true value in money". In another case the stock was worth $250,000 while the return was only $91,000. A department store with a turnover of thirty millions reported a stock of one million. The average turnover for a department store is seven times a year. Thus the average stock should have been at least $4,000,000. A steel company reported on the tax ticket one million while five millions were paid in dividends the same year. The taxpayer knowing that the officers are too busy to check up on all returns, hopes he will not be caught and makes a return of any percentage he feels fair or such an amount as will appear plausible.

In the case of automobiles a form must be filled out when application is made for a license. This form is sent to the county auditor who may check it with the personal property tax returns. It is rare that he will seek out those cars which are not returned on the list. In addition a return of cars at full value is not obtained by the license bureau. In 1920 there were 616,000 cars and trucks in the state. The returns on "Motor and Other Vehicles" amounted to $183,429,568. When bicycles, wagons, buggies, etc. are eliminated as worthless, the average value of motor vehicles is only $297.77. By some stretch of imagination, this might be true for low priced cars but it is not true when it is remembered that 150,000 belonged to the better grades as shown by the license fees.

Pianos and musical instruments are returned at low values. The total tax returns on these instruments in Ashland County for 1920 was $251,560. The population was 25,000. Assuming that there were 5,000 families and 2,000 owned pianos, the average value would be $125 if all other instruments were excluded. When phonographs,

and other instruments are included, it is manifest that most of this class of property is escaping taxation.

The escape of household furniture is equally as great. The total value in Richland county in 1920 was $1,509,945. There were about 11,000 families in the county. The average value was $176. In Delaware the average value was $169. It is only necessary to inquire at a furniture store as to the price of one medium grade suite of furniture to see how ridiculously low these returns are.

California has experienced the same difficulty with the general property tax which has existed in other states. In a report made in 1906 by the Commission on Revenue and Taxation, it was stated that the tax system was 200 years old when adopted and had been in use for 50 years with little change. The constitution requires that "all property shall be taxed in proportion to its value." Some classes of property escape to a large extent. In 1860 personal property constituted 46 per cent of the tax roll, in 1870 39 per cent, in 1880 26 per cent. The total in 1897 was 38 per cent less than in 1872. The per capita assessment of real estate increased in the same period from $523 to $840.

Merchandise was assessed at 27 millions in 1880 and only 40 millions in 1896. Only about 15 per cent of all taxes are levied on personal property. The general property tax is essentially a tax on real estate.

The crops of the farmer are exempt from taxation in Virginia as long as they remain in his hands. In Tennessee the crops are exempt even in the hands of the immediate vendee. This prac-

[illegible] where [illegible] are [illegible]. It is evident that much of this class of property is [illegible] [illegible].

The amount of household furniture is equally as great. The total value of [illegible] owned in 1920 was [illegible]. These were owned [illegible] [illegible]. The average value was [illegible]. In [illegible] the average [illegible] was [illegible]. It is only necessary to inquire of a [illegible] [illegible] to the value of the [illegible] grade [illegible] of furniture [illegible] for [illegible] use.

[illegible] with the general [illegible] in other states. In a report made in 1920 by the [illegible] it was stated that [illegible] had been in use for [illegible]. The [illegible] reported that [illegible] will be taken [illegible]. In 1920 personal property [illegible] in 1910 [illegible] per cent. In 1900 [illegible] per cent. In [illegible] 1897 was [illegible] per cent less than in 1870. The [illegible] of real estate increased [illegible].

[illegible] only [illegible] in 1920. [illegible] taxation [illegible] a tax on real estate.

The [illegible] of the [illegible] from taxation [illegible] the other [illegible] in the hands of the [illegible]. This [illegible] tice seems justifiable for several reasons. The yield of the crop and its market value cannot be predicted. The hazard of a crop due to insects, weather, and manner of cultivation as well as its value (are) due to fluctuating prices, make it impossible to make a fair assessment before the crop is harvested and sold.

When we consider timber we find an unique problem. There is on one hand the immense acreage of mature timber and on the other hand waste land of little value except for the growing of timber. If the taxes are too heavy on this class of property, the destruotion of the forests is encouraged while on the other hand the raising of a timber crop is discouraged.

The risks of holding or of raising timber are great due to the danger of fire, windstorms, or even in some cases insects and diseases.

We have reached the point where further depletion of our timber resources constitutes a national menace. We have in the last decade found it necessary to depend largely on foreign sources of raw material for paper. In a comparatively short time we will find it necessary to import lumber. It has therefore become a national problem to preserve our present position at least with regard to a lumber supply. It is incumbent on each and every state having waste lands suitable for timber to encourage the cultivation of forests.

Let us now examine the problem of mature timber. The owner [illegible] investigation for general reasons. The yield of the crop and the market value [illegible]. The effect of a [illegible], weather, and manner of [illegible] as well as the [illegible], make it impossible to make a fair [illegible] before the crop is [illegible] and going.

[illegible]

[illegible]

[illegible]

[illegible]

would prefer a yield tax; that is a portion of the proceeds when the timber is actually marketed. One objection to this is that he might choose to retain it uncut for a long period or hold it as a park. In either case, the resources of the locality can hardly be said to have increased. Another objection is that the revenue of the state and locality would be irregular. This would be a serious problem for those localities whose resources are chiefly timber.

From the point of view of the state, such property should be taxed on a par with other property. The tax should be collected each year. However, due account should be taken in making assessments as to whether it is possible to market the timber in the near future, due to situation or other natural causes.

It is generally admitted that the general property tax results in unfair taxation when applied to growing timber as compared with property yielding and annual income. Theoretically justice would be secured if the land and timber were valued separately. (1) The land being valued at the same figure as adjoining bare land. (2) And a yield tax being levied on the timber when cut and sold. It must be remembered that only lands unfit for agriculture could be profitably used for growing timber which requires forty to fifty years to mature. When the taxes are levied annually, the interest on the taxes becomes prohibitively high before the proceeds of would render a title [illegible] than [illegible] a portion of the property which the lessor is [illegible] entitled. The objection to this [illegible] is that [illegible] it [illegible] for a [illegible] period of time [illegible] In other words, the interests of the landlord [illegible] to [illegible] Another [illegible] is that [illegible] the [illegible] would be incomplete. This would be a [illegible] problem for those landlords whose [illegible] are [illegible] absent.

[illegible] the property should [illegible] as [illegible] [illegible] should be [illegible] the [illegible] should be [illegible] in [illegible] or [illegible] in [illegible] the [illegible] and [illegible] or other [illegible]

It is [illegible] that [illegible] of the [illegible] [illegible] Consequently [illegible] should be [illegible] in the [illegible] were [illegible] (1) [illegible] of the [illegible] (2) [illegible] would not [illegible] It [illegible] would [illegible] on the [illegible] the [illegible] In the [illegible] the interest of the [illegible] the problems of of the crops are received. Probably the best results could be secured by taxing the land and exempting the timber. The annual tax should be supplemented by a yield tax of about 5 per cent of the annual yield as the timber is marketed.

Under the common law, forests are regarded as realty. However, the courts in several states have held that growing timber may be regarded for purposes of taxation as personal property. In others its will be necessary to change the constitution to secure the desired result.

The problem of merchants' and manufacturers' stock presents several difficulties. Where the general property tax obtains, the merchants and manufacturers are at a disadvantage due to the fact that their property is on display and not easily concealed. The tangible personalty is such that its value is easily ascertained by the assessors. Where a business is purely local, the tax may be passed on to the consumer when other firms are not evading their just share of taxes. However, where the business extends over a large competitive field and the taxes are high in one community or commonwealth, they are a distinct handicap and may even mean ultimately the difference between success and failure.

Often the stock in trade is secured on credit. Some states allow deductions for debts while others allow no deductions whatever. As a matter of fact, it is found that the merchants' and manufacturers' stock is grossly undervalued due to the fear of of the group are required. Since all the [illegible] positive would be removed by taking the [illegible] and [illegible] the [illegible]. The [illegible] the [illegible] be [illegible] be a [illegible] of [illegible] of the lowest [illegible] of the [illegible] is expected.

Under the [illegible] [illegible], [illegible] the [illegible] [illegible]. However, the [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] may be [illegible] for [illegible] of [illegible] [illegible] [illegible]. In [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] to [illegible], the [illegible] [illegible].

The [illegible] of [illegible] [illegible] [illegible] several [illegible]. [illegible] [illegible] [illegible] [illegible], the [illegible] and [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] to the [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]. The [illegible] [illegible] to [illegible] [illegible] [illegible] [illegible] [illegible] by the [illegible]. [illegible] [illegible] [illegible] [illegible], the [illegible] may be [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] in the [illegible] [illegible] [illegible] [illegible] [illegible] and [illegible], [illegible] [illegible] [illegible] the [illegible] [illegible] [illegible] failure.

[illegible] the [illegible] [illegible] [illegible] [illegible] of [illegible]. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible], [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] of driving them away.

It is a matter of general knowledge that the taxation of personalty at the same rate as real estate under the general property tax is inequitable and impracticable. The following is taken from the eminent authority, Prof. Charles J. Bullock, of Harvard University:

"Tangible personal property continues in all states, except Minnesota, to be taxed like real estate. Yet it would seem that in a proper scheme of classification this kind of property should be taxed at a special rate. It consists for the most part, of merchandise, machinery, and live stock, property which may be assumed to be employed in trade and to yield an ordinary trade profit which may be taken to be 10 per cent. From property of this description which is mobile and subject to severe inter-state and even international competition, it is doubtful if any of our states ever has collected or can expect to collect taxes that absorb more than 10 per cent of the income. Since $100 of such property may be assumed to yield an annual income of about $10, the proper tax rate would be 80 cents or $1.00 per hundred; but rates prevailing in our States are usually double these figures. The result is general undervaluation, by which tangible personalty as a class is assessed at from 30 per cent to 60 per cent of its true value while in individual cases assessments range from nothing up to 100 per cent, producing gravest inequalities between tax payers. The introduction of better methods

of taxing intangible property has indeed simplified and improved somewhat the taxation of tangible personalty, the efforts of efficient state tax commissions have changed things for the better, but the problem has not been solved.

"For manufacturing and commercial states the question is one of the greatest importance. In these commonwealths, expenditures are usually heavy and tax rates are high. Strict enforcement of a tax amounting from $1.50 to $2.00 per hundred dollars would not be tolerated by public opinion, since it would drive so much business to other states. The rational, expedient, and straightforward thing to do is to reduce the tax to a figure that can be collected, and then enforce the law in all cases without fear or favor. When expenditures are small and the general tax rate does not equal or exceed $1.00 per hundred, the matter may not be of importance; but elsewhere the proper classification of tangible personal property is becoming increasingly desirable and necessary."

The general property tax broke down in the older industrial states fifty years ago. It had broken down in the agricultural states in 1900. In spite of its obsolence many states still cling to it as a foundation of their tax system. The evils of the tax may be grouped as follows:

First, the inequalities between the owners of realty and personal property. The ratio of taxes paid by personal property as compared with those paid by real estate has steadily de-

[illegible]

for the writer, [illegible]

[illegible]

creased during the last fifty years in spite of the enormous increase in the value of personalty which now far exceeds that of realty. The owners of personal property pay less than their just share of the tax burden due to unscientific tax systems.

Second, the inequalities among owners of personal property are great. The owners of live stock are taxed far heavier than the owners of manufacturers' and merchants' stock. The owners of intangibles almost wholly escape taxation. This is shown by (1) The individual making honest returns is punished because the value of intangibles is easily ascertained when reported. Where the tax rate is high most of the interest on high grade bonds is required to pay the tax. (2) The dishonest are rewarded because by failing to make full returns they escape their share of taxation. (3) It results frequently in double taxation. Thus where property is taxed at full value and the mortgage on the property is taxed, the same property pays essentially two taxes. It is generally conceded that a tax on mortgages is shifted to the mortgagor. Double taxation also results in the case of a farm devoted to the raising of live stock. The land is taxed and the only thing the land produced for market is taxed. (4) It is unjust because some owners of intangibles escape while others pay the tax. (5) It lowers the standards of integrity. In some states it has been necessary not to disqualify one as a juryman or a witness even though perjury has been practiced in making tax returns.

It is almost universally recognized that the present system has outgrown its usefulness. However everyone is reluctant to see the system entirely rebuilt. Each taxpayer fears that he will be the scapegoat, and have to pay more taxes than at present. The state governments resist a change due to fear that any new system will not work as well in practice as on paper and a large deficit will result.

There is no doubt that the systems will have to undergo a radical change. The general property tax will have to revert to its original form--a tax on real estate. Personal property will have to be taxed at a very low rate or totally exempt and reached thru other means. Such would be a business tax on corporations and an income tax on individuals.

The "Report of the Committee on Practicable Substitutes for the Personal Property Tax" to the National Tax Association in 1917 made the following statements:

"Whereas: A committee was appointed under a resolution adopted at the Louisville Conference to inquire into the causes of the failure of the general property tax,

"Resolved: That the Conference endorses the conclusions of the said committee and finds that the general property tax, under higher rates of taxation caused by the increase of public expenditures in the United States, has broken down in so far as it applies to personal property; and

"Resolved: That this Conference finds, that the taxation of personal property has not been more successful under strict admin-

istration than under law; that states which have abandoned or modified the general property tax show no intention of returning to it; and that in states where the general property tax is required by constitutional provision, there is a growing demand for the repeal of such provisions; and

"Resolved: That the failure of the general property tax in its application to personal property is due to the inherent defect of its theory; that even reasonably fair and effective administration is unattainable; and that attempts to strengthen such administration simply accentuate the inequalities and unjust operation of the system." "Note: Quoted from endorsement by the Association of the report in 1910 of the "Committee of the Causes of the Failure of the General Property Tax."

"Personal property consists of two chief classes--tangible and intangible. Tangible personalty may be further divided into productive and unproductive. Unproductive tangible personalty, in the ordinary commercial sense, consists of household furniture, wearing apparel, jewelry, pictures, and books, when in use and not for sale. Productive tangible personalty may be roughly subdivided into goods, wares, and merchandise; machinery and stock in trade; and farm implements, live stock and produce."

In regard to unproductive tangible personalty they said, "All such property requires space for which rent is paid, so that it is in a measure roughly reached by a tax on real estate.

Household furniture is recognized as a necessary burden rather than as an asset, and in many states a certain amount is exempted by constitution or state. Its assessment is always difficult and arbitrary. Pennsylvania has not taxed household or personal effects for many years, and in most of the Canadian provinces such property is exempt. Valuable furniture and paintings will occupy valuable residence property, and their entire exemption would make only a trifling increase in real estate taxes and would not disturb the distribution of the tax burden. The same is more or less true of other unproductive personalty. Where, as is usually the case, its fiscal significance is slight your committee recommends exemption rather than any substitute."

In regard to productive tangible personalty they hold that, The goods, wares, and merchandise of mercantile establishments and the machinery and stock in trade of industrial plants may be classed together. Their assessment is always difficult and attended with many inequalities. Far simpler is the endeavor to reach the ability of the business man by attempting to tax the business itself. The three chief forms of business taxes are business license, taxes on receipts, and taxes calculated according to some external criterion."

They continue, "Farm implements, live stock, and produce form a large part of the total personal property assessments of most States. Yet the inequality of its taxation arouses great

discontent. To the extent that this property bears a fair proportionate relation to the value of the farm and outbuildings--which is apt to be true in the great majority of cases--it would seem that no special tax on these forms of property would be needed to secure relative justice as between taxpayers. The burden of local taxation on the farmer would not be increased if such property were exempted. And he would certainly gain by having this property exempted from county or state levies, from which so large a share of other personal property notoriously escapes.

"Where more than the average or proportinate number of live stock, however, is kept, or where fiscal necessity seems to require the continued taxation of such property, your committee would earnestly recommend that the proceeds of the tax be wholly retained by the local government."

It would not work great hardship on the state revenues to totally exempt unproductive tangible personal property because only a small part of the total revenue is derived from this source. It would not work great hardship on the individual, as a result of reapportioning the total taxes, because a relative small amount of his property is in the form of household furniture, clothing, jewelry, etc. The real test of the ability to pay taxes rests not on the value of property owned but on its earning power. The problem is somewhat different in each state.

Pennsylvania has had segregation for a long time. Real estate is not taxed for state purposes nor is personal property of corporations taxed for local purposes. New York attained segregation in 1906 after gradual changes in the tax system over a period of years. A return to the old system to fill in requirements for additional revenue was necessary in 1911. California adopted segregation by constitutional amendment in 1910. The results have not been satisfactory. North Carolina adopted this plan in 1921.

Wisconsin has obtained good results by abolishing the personal property taxes and substituting in its place an income tax. Thus fairness is obtained in the taxation of the farmer and the city man. The farmer's taxes are chiefly paid on real estate while the city man pays a graduated income tax. The former derives his income from his crops and the gradual increase in the value of his land while the latter receives his income from a salary or business and intangibles.

There is an imperative need for change in Virginia but the problems here are different from those in many states. The wealth is largely agricultural. Segregation would not produce sufficient revenue for the state, and it would be essentially a tax on a few cities such as Richmond, Norfolk, Roanoke, Danville, Hopewell, Petersburg, Lynchburg and a few others. The Wisconsin system might work but careful study would have to be made and

some changes would be necessary before adoption. Under the present system tangible personal property is taxed under the general property levy and also under the income tax levy which is very low. In effect personal property is escaping its fair share of the tax burden due to escape to a large extent from the general levy and the very low rate oN incomes.

We have found that tangible personalty consists of both unproductive and productive property. We have found that the proportion of state revenue derived from the former source is almost negligible. We have found that the ownership of this property constitutes more of a burden than an asset. Therefore we are justified in recommending that this property be exempt from taxation.

We have found that the assessment of the productive portion is equally as bad as that of the unproductive portion of tangible personalty. We have found that when the tax rate is above $1.00 per $100 it is impossible to attain anything like assessment at true value.

The ways out are thru classification, or exemption from specific taxes and attempting to reach the property thru income and business taxes. A business tax might take the form of a tax on total gross receipts. A gross receipt tax works fairly well

from the administration point of view as evidenced by the taxation of railroads in Virginia. An income tax to be successful in reaching this class of property would have to be much higher than at present. The rates in Virginia are only one and two per cent. It would not be difficult to administer a much heavier income tax due to the fact that the Federal Returns are open to the state income tax departments.

Another way of reaching this property (productive tangible personalty) is thru a classified tax. The rates should in no case exceed $1.00 per $100 actual value. The assessments should then be made a full value. This would not be done unless there were also strict administration by a central body such as a state tax commission. The present local autonomy would forestall the attainment of anything like fair assessments. This is forcibly illustrated by the results of a classified and reduced rate on intangible personalty which was recently imposed in Virginia. The taxes on this class of property fell off nearly one half. The fault lay in the fact that the rates were still too high and the administration continued as lax as before.

Virginia will never attain anything like just taxation as between individuals and a sufficient state revenue until there is an entire rebuilding of the tax system. It will be necessary to have a tax commission with real power over the local assessors. The income tax will have to be increased as will the business taxes except those on public service corporation.

[illegible]

than the [illegible] high value of land as evidenced in the [illegible] of [illegible] in Virginia. An income tax is so [illegible] in [illegible] this phase of property would have to be much higher than at present. The rates in Virginia are only one and two per cent. It would not be [illegible] to [illegible] a more [illegible] income tax due to the fact that the Federal income tax and to the states [illegible] high [illegible].

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Virginia will never [illegible] [illegible] personal [illegible] is an [illegible] [illegible] of the tax system. It [illegible] to make a [illegible] [illegible] the [illegible] [illegible] through public opinion [illegible].

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