A HANDBOOK ON TAXATION
FOR
PUBLIC SCHOOL ADMINISTRATORS

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PREFACE

The subject of taxation gives rise to many vital and interesting problems in regard to the administration of public schools. Some public school administrators believe that this subject ranks among the leading social problems of this era. It is obvious that taxation and taxes play an important role in the fiscal administration of many public schools.

At various places throughout this handbook there appear numerous quotations. These are included to buttress the presented material with the opinions of tax experts.

While making this study, it has been necessary to seek aid from many sources as designated in the introduction. It is a pleasure to acknowledge my indebtedness to the many individuals whose cooperation has been so generously given. For the personal guidance and advice throughout the study from its inception to the final manuscript, thanks are expressed to the members of the Advisory Committee; Professors John W. Twente, Carl B. Althaus and F. P. O'Brien of the School of Education at the University of Kansas. The author, however, accepts full responsibility for the conclusions drawn as well as for the errors which may have occurred.

Finally, acknowledgment is made of the helpful services extended by Lona Marion Sheffield, who aided
in reading the manuscript and otherwise helped in no small measure in completing the study.

J. P. S.
INTRODUCTION

This handbook attempts to make available to public school administrators some usable material for guidance in the vital task of making defensible tax recommendations and decisions. It is impossible to include all the tax problems in this presentation, but it is believed that the materials presented will be useful and stimulating to the public school administrator who needs ready access to some of the facts about taxes and taxation.

A school superintendent in order to meet the demands of his profession must be informed about the changes which are taking place in the economy of a nation, especially that portion dealing with social agencies. The role played by taxation, while assuredly important, is not always clearly defined. The alert school superintendent finds that it is an integral part of public school administration for him to devote considerable time and study to the job of financing a school program. He finds too that the intricacies which exist in connection with the preparation, adoption and administration of the budget, even though local in nature, exist the year around. The recommendation of a levy necessary to provide a large portion of the needed money to operate the schools for a given period ought to be based upon a knowledge of the problems in the field of taxation as well as an understanding of the conflicts of interest that may exist among the various
agencies seeking tax revenue. Most urban school tax pro-
grams take into account the various sources of revenue de-
derived from local, state, and Federal taxing units and to
understand the problems involved is a part of the working
knowledge of many public school administrators. To be
able to hold enlightened discussions with trained tax
agents is frequently an important assignment to anyone who
is attempting to enhance the interests of institutions
which are maintained by taxes.

A resolute approval or disapproval by public school
administrators of statements such as the following, when
based upon an understanding of the problems involved,
would signify evidence of professional alertness in the
field of taxation:

"I have often expressed my belief that no really
satisfactory tax reform can be achieved without
readjusting the Federal-state-local fiscal re-
lationship. I urge a thorough investigation of
the possibilities of a comprehensive tax reform;
I propose that meanwhile we make all possible
progress in improving the Federal tax system."
(Chief Executive's Budget Message to Congress,
January 8, 1941.)

There is an abundance of evidence in the literature
on taxation which indicates that tax systems are under-
going changes in harmony with the sociological changes
of this generation. It is probable that the changes which
have occurred in Federal and state tax systems have ex-
ceeded in number the changes that have been made in school
taxing units.
Much of the literature in the field of taxation has been written by three groups of authorities with more or less divergent points of view. The three major groups whose writings show evidence of thought, study, and experience in matters pertaining to taxation are: (1) Tax Economists, primarily composed of professors of economics who have specialized in taxation; (2) Tax advisors, agents and experts who for various reasons are familiar with tax policies and principles; and (3) Tax administrators, primarily composed of Federal officers and State tax commissioners. Only relatively minor emphasis has been given to taxation as an entity, subject to the psychological laws governing totality.

The need as met by this study

It seems that an over-view of taxation with its social implications and its practical applications, needs to be given. Since the public schools of the United States are financed primarily by money collected through taxation, it is assumed that public school administrators will be interested advocates of the newer practices and techniques applicable to procedures in taxation.

The method used in this study

To find the convergencies and to compare the divergencies of principles, practices, and opinions applicable
to the field of taxation, the following method has been followed:

First, an analysis was made of the problems in taxation which were commonly discussed in the recorded statements in all of the approximately 800 pamphlets, reports and special studies, primarily the publications of tax administrators, in the department of Governmental Research at the University of Kansas.

Second, an analysis was made of writings of approximately 100 tax economists to (1) ascertain the different classifications of types of taxes; and (2) compare the opinions of tax administrators with those of tax economists.

Third, a canvass was made of the voluminous literature on taxation which was available in pamphlets, reports, books, magazines, and news items totalling some 1500 with a view to identifying questions and problems which were postulated by authorities. This number included approximately all of the tax material in book and pamphlet form located in the University of Kansas Library.

Fourth, general inquiries were sent to 10 national organizations which have an active interest in the problems on taxation and to several economists and superintendents of schools. Practically all who were addressed contributed some data.
Fifth, a questionnaire on tax evasion with related problems was sent to the chief executive officer in charge of taxation in each of the 48 states. Thirty replies were received. Other information than that pertaining to tax evasion was received in some instances.

Sixth, numerous personal conferences were held with tax economists, tax administrators, tax agents and other students of taxation. The information so received while not available for use in this study did furnish an additional source upon which to judge the validity of other data.

Seventh, based upon the average tenor of the three groups of authorities as gleaned from the sources enumerated and upon the advice of the faculty committee sponsoring this study, questions and answers were selected as the most feasible method for determining the status of, and ascertaining the nature, composition and processes that characterize, taxes and taxation from the point of view of public school administration.

Eighth, a guide in the classification of questions was found in part by the general agreement on types used by Fredlyn Ramsey in Table 8 of staff study number 4 of the Advisory Committee on Education dated at Washington, D. C. 1939. The percentage distribution by type of tax
of revenues for elementary and secondary public schools in the United States according to this table is shown at the beginning of Chapter 5 to 10 inclusive.

The number of questions formulated on problems of taxation not included under types of taxes was allocated according to the frequency and extent of the problems discussed in the canvass mentioned of literature on taxation.

Ninth, based upon data collected through the channels previously cited, the following guide was devised for the promotion of continuity of purpose and effort governing the nature and sequence of questions on types of taxes. A similar outline for problems other than types of taxes did not appear feasible.

Outline guide governing the nature and sequence of questions formulated on types of taxes.

1. Relative importance to school finance
2. Definition of the tax
3. Justification of the tax
4. Incidence of the tax
5. Social control influence of the tax
6. Administration of the tax
7. Amount and distribution of the tax revenue
8. Relative importance in the tax system
9. Evasion and avoidance of the tax
The Theses Proposed in This Study:

1. This study is based upon the assumption that taxation is a field for inquiry which can best be understood when considered as an entity.

2. It is postulated further that the three groups of authorities have not adhered to the treatment of taxation as an entity.

3. It is further assumed that the convergencies of opinion found among the groups of authorities may be considered from the following points of reference:

(a) In the status of development of public schools in 1941, the schools act as the major social agency in the community, extending leadership and service to all other agencies which promote the general welfare.

(b) The public school superintendent as chief executive officer of the board of education is charged with the construction and administration of one of the largest annual budgets in the community. As a responsible leader of local finance he will participate in many functions of the business life which are affected by taxes. In this capacity it is necessary to plan and work with the fi-
nancial leaders of the community many of whom have some knowledge on the subject of taxation.

(c) Since any problem in taxation, to be fully meaningful, must be considered in its relationship to other problems in taxation, it is not feasible for the school administrator to limit his interest in taxation to any specified types of taxes from which the schools may at present be receiving resources.

(d) The emphasis given to problems of taxation by the Federal Government during the decade of the 30's, especially that portion which deals with social control, has placed taxation among the most prominent social problems of the day. And since this emphasis has been initiated by the Federal Government it has produced a sequence of changes in state and local taxing units. This transition is apparently affecting all phases of taxation.

The succeeding chapters will be devoted to an examination of the evidence which guided the formulation of these hypotheses. Part one deals with the more general tax problems and relationships in which school taxing
units find a setting; while part two is devoted to a consideration of the types of taxes from which the public schools are at present receiving resources.
PART I

GENERAL TAX PROBLEMS AFFECTING
PUBLIC SCHOOL ADMINISTRATION
Chapter I
THE FEDERAL TAX PROGRAM AND THE FISCAL ADMINISTRATION OF PUBLIC SCHOOLS

The multiplicity of taxing units in the United States with their numerous overlapping boundaries and consequential conflicts of interests has provided cause for criticism in some instances. Does the United States have a tax system or only a hodgepodge of taxes--Federal, state and local? Fred Rogers Fairchild, noted tax economist of Yale University, has answered this question in a positive manner by stating:

"The fact is we very definitely do have a tax system in these United States of America. It is not perfect; it has its many and glaring defects. But it is not the chaos of unrelated taxes which some would have us believe." (Fairchild, Fred Rogers, The Annals of the American Academy of Political and Social Science, Volume 214, March 1941)

A comprehensive understanding of the Federal tax system seems to require a comparable knowledge of the growth and development of the nation. Colonial experiences in taxation, which had their roots in the British tax system were revamped and adopted into the Federal Constitution. From this beginning until the present changes have taken place, some of which were not designed on defensible motives from the viewpoint of national welfare. Although many constructive changes have taken place in the Federal tax system, no claims have been found in the
literature on taxation that they have kept pace with the evolutionary changes which the economy of the nation seems to justify. Thus it may be said that there is a noticeable lag between economic conditions peculiar to the United States and the adaptation of a satisfactorily functioning Federal tax program.

There is evidence of a tax pattern, though limited in coherence, found in the Constitution of the Federal Government and the various states. Here provision is made for coordination of Federal-state tax systems. Although of elementary factual nature, a few of the important features of this provision are herewith enumerated:

1. The Federal Government has exclusive authority to control the tariff (levy duties on imports) and to tax interstate commerce.

2. Direct taxes imposed by the Federal Government must be of such nature that the yield from the separate states shall be in proportion to the respective populations.

3. Indirect taxes imposed by the Federal Government must be geographically uniform throughout the United States (the law must apply with equal force wherever the taxable subject lives)
4. The states have no power to challenge the priority of the Federal Government in the field of taxation.

5. The states are not permitted to levy tariff duties on imports without the consent of Congress nor may they interfere with foreign or interstate commerce. (Trade barrier laws enacted recently in some states have created serious tax tensions.)

6. Amendments to the Constitution, statutory regulations and court decisions have increased the amount of coordination between Federal and state tax systems. Daniel T. Selko, author of the Federal Financial System says:

"The taxing power granted the National Government is a broad general power, and although the Constitution specifically forbids duties on exports, it does not otherwise limit Congress in its choice of taxable objects." Selko, Daniel T., The Federal Financial System, The Brookings Institution, Washington D. C. 1940.

It would appear upon examining the Constitutional provisions that little or no difficulty should be encountered in framing tax laws which would promote the general welfare. The 14 years of preconstitutional experiences, in having all taxing power lodged with the
colonies, gave way, with the adoption of the Constitution, to the broad general powers noted above. The two sovereign governments now have dual tax systems and the complexities of economic and social relationships constantly require readjustments in an effort to have smoothly functioning tax processes which promote the general welfare.

The significance of the Federal tax program to school taxing units may be readily observed when it is pointed out that local taxing powers including that possessed by boards of education are delegated from the state. Since the states must adhere to Federal supremacy in the field of taxation, as provided for in the Constitution, any efforts on behalf of local and state taxing officials which counteract or otherwise fail to implement the Federal tax program may eventually effect adversely the local taxing unit.

It is believed that public school administrators sometimes fail to give proper emphasis to the importance of the increasingly close relationship existing between Federal-state and local taxing systems. Some of the factors of the Federal tax program which seem to have significance to the fiscal administration of public schools are developed in the questions and answers to follow.
Question 1:

What are some of the problems inherent in the Federal tax system which affects state and local taxing units?

Answer to question 1:

From the viewpoint of public school administration it is believed that some of the principal problems inherent in the Federal tax system may be summed up under the following topics:

1. The taxing, spending and borrowing powers are provided in the Federal Constitution.

   In Article I, section 8 of the Constitution Congress is granted power to "lay and collect taxes, duties, imposts and excises," "to pay for the debts and provide for the common defense and general welfare of the United States," and "to borrow money on the credit of the United States."[1] Daniel T. Selko points out that there are four established rules governing both the taxing and the spending powers of Congress. For the taxing powers these rules are:

   a. That all bills for raising revenue must originate in the House of Representatives.

*See explanatory statements on page 30
b. That all "duties, imposts, and excises" must be uniform throughout the United States.

c. That direct taxes, except taxes on incomes, must be apportioned among the states according to their respective populations.

d. That all taxes must be levied for the payment of debts or for the general welfare."

There seems to be little connection between rule one and public school taxing units. The sixteenth amendment to the Constitution adopted in 1913 practically placed income taxes in the class with "duties, imposts and excises" and to this extent is meaningful to the public school taxing program. It is the application of the welfare rule wherein there lies an issue which appears to need resolving. Is the general welfare to be identified with the national welfare? Shall the concept of general welfare be static? What the general welfare is and whose duty it is to define the needs and over what area shall the administration ex-
tend have been matters of grave concern on frequent occasions during the history of the nation. The rules governing the spending power are listed by Selko as:

a. Appropriations for the army are limited to a period of two years.

b. Money drawn from the treasury must be by appropriation.

c. A regular statement and account of all receipts and expenditures must be rendered from time to time.

d. All expenditures are to be made for the general welfare.

While the phrase "general welfare" is here, as in the rules governing the taxing power, open to controversy depending upon the construction given to the terminology; the principal issue which seems to exist relative to the spending power of the Federal Government is the amount and nature of spending. In some instances states and local taxing units have hesitated about making expenditures which must be provided by taxes because of the size of the Federal debt and the amount of Federal ex-
penditures which were being paid by taxes.
J. Arthur Marvin, Vice President of the New York State Society of Certified Public Accountants sums up this idea in a statement made on December 9, 1940.

"Persons have just so much money and since it is imperative for the Federal Government to collect more in taxes, the states must demand less. To enforce this kind of economy it is necessary that taxpayers re-educate themselves in the way state taxes are spent."

Some writers in the field of public finance point out that the per capita Federal debt is well above $300 and that interest payments, although the average rate is near a low of 2.6 per cent, amount to approximately 1,000 million dollars per year which is excessive even for a nation with the wealth and income possessed by the United States. M. Slade Kendrick, Professor of Economics and Public Finance, Cornell University points out that:

"Interest on the public debt is growing, even though the rates paid on public obligations are extremely low."

Gerhard Coim Principal Fiscal Analyst in the United States Bureau of the Budget,
Washington D. C. makes the statement that:

"The study of public expenditures is equal in importance to the study of taxation. I dare say that the fundamental problems of taxation and public credit cannot be solved without an underlying theory of expenditures. . . . As long as public expenditures formed only a small percentage of the social product, it was not so important how the government spent this money. But with this proportion increasing, public spending becomes a decisive factor in economic policy. Public expenditures today can no longer be considered from a merely fiscal point of view; they must be considered also from the point of view of the whole economic system." 

There are no Constitutional limitations on the borrowing power of the Federal Government nor are there established rules for guidance such as have been enumerated for the taxing and spending powers of Congress. Yet according to Paul Studenski, Professor of Economics at New York University, New York City:

"Next to taxes, public credit is the most important fiscal instrument for the achievement of the purposes of government. . . . Federal, state and local borrowing should be coordinated. Taxation policies should be correlated with borrowing policies in accordance with the requirements of the economic situations, and new standards and mechanisms of borrowing should be established in the Federal, state and local fields. In this modernization
of public credit, many controversial issues will arise. Students of public finance should be able to make contributions to a proper disposition of these issues to prevent a settlement of them solely by the pressure of party politics and self-interest of economic groups."

The overshadowing issue in 1941 relative to Federal borrowing is the amount to borrow in financing national defense needs and the amount to be raised by taxation. Fairchild believes that:

"The idea that extraordinary defense needs, like the needs of war, ought to be financed as largely as possible by taxation and as little as possible by loans is absolutely sound."

The significance of the issues involved in the taxing, spending and borrowing activities of the Federal Government is not limited to the effect on the business enterprise of the nation. Kendrick states:

"The Federal Government makes a number of appropriations for education. . . . The funds granted like those for social security are expended by the states on a matching basis. Their amount has increased greatly in recent years: $10,600,000 being expended in 1934 and $26,700,000 in 1939. Usually appropriations of this nature are continued. . . . But in view of the larger expenditures by the state and local units of government for education, a general increase in these grants during the period of heavy armament expenditures.
seems unlikely, although an increase may be made in the grant for vocational education."

Leslie L. Chism, Professor of Education, State College of Washington, in his study of The Shifting of Federal Taxes and Its Implications for the Public Schools, states as a part of his conclusions that:

"Any burden which Federal tax collections place upon the economic resources of the state and local tax base accordingly and hence tends to reduce the amount of tax revenue which state and local governments can raise. This is particularly true if the total tax bill of the nation is large."

The foregoing citations tend to show that from the standpoint of the fiscal administration of public schools; the activities of the Federal Government in exercising the taxing, spending and borrowing powers are important in three distinct ways: (1) the effects produced on business enterprise; (2) the percentage of wealth and income utilized which reduces available school revenue; and (3) the increase or reduction of appropriations made to public school support.
2. The immunity principle has some meaningful connotations for local taxing units.

In a special message to Congress April 25, 1938 and repeated on January 19, 1939 the President urged Congress to levy taxes on income "from whatever source derived" and stated that the time had come to stop exemption from taxation of salaries of Federal and state officers and employees and that the taxation of income from government securities was feasible.¹

The issue regarding the taxation of government salaries was brought to a close with the enactment of The Public Salary Tax Act on April 12, 1939. The proposal to tax the income from government securities provides room for sharp differences of opinion. The Joint Committee on Internal Revenue Taxation has made a study of this problem as have The Department of Justice, The Supreme Court, The Committee on Ways and Means of the House of Representatives and numerous students of taxation. James W. Martin, Professor of Economics and Director
of the Bureau of Business Research at the University of Kentucky, says:

"Reciprocal exemption is provided on the theory that permitting the states to tax the instrumentalities of the Federal Government and the Federal Government to tax those of the states would make possible mutual destruction. The power to tax involves the power to destroy."

In presenting argument for the case against taxation of governmental securities, Carl H. Chatters, Executive Director of the Municipal Finance Officers Association of the United States and Canada, points out some disadvantages of the proposal to tax governmental securities which are especially pertinent to the fiscal administration of many public school taxing units. He says:

"Increased interest costs to state and localities will surely follow the Federal taxation of their securities. Smaller communities will find it difficult if not impossible to market their bonds at all. The cost of local government borrowing will be increased. This added cost will be borne by local taxpayers and will be reflected primarily in the local real estate tax. Is it consistent for the Congress to increase the volume of tax-exempt properties in cities through the United States Housing Act and present
defense measures and at the same time
to complain because tax-exempt securi-
ties exist? Congress might give heed
to the $3,282,000,000 of Federal real
estate now removed from state and local
taxation which, if taxed at local rates,
would pay annually $91,051,375."

Harley L. Lutz, Professor of Public Finance at
Princeton University, in his study of The Fiscal
and Economic Aspects of the Taxation of Public
Securities, submitted to the Congress of the
United States by the Comptroller of the State
of New York in 1939 shows that:

"The significance of this problem in
so far as public schools are concerned
lies in the amount by which the property
tax levy would need to be increased.
Under the conditions prevailing in 1936
there would have been a range from 42
cents per $1,000 in Milwaukee, Wiscon-
sin, to $2.10 per $1,000 in Detroit,
Michigan."\(^2\)

The arguments favorable to the case for
taxation of governmental securities may be
found in the 1939 hearings of the Special
Senate Committee on Taxation of Governmental
Securities and Salaries. Some of the principal
arguments presented for the elimination of
tax immunity of Federal, state and local se-
curities are:

1. Tax immunity and tax exemption must
be eliminated in the interest of
progressive taxation.
2. The exemption or immunity of public securities from taxation diverts funds from private financing.
3. Tax immunity has encouraged state and local extravagance. 

K. M. Williamson, Professor of Economics at Wesleyan University, Middletown, Connecticut is of the opinion that:

"Probably the chief advantage, however of discontinuance of tax exemption now would be the improvement of the equity of our tax system at a time, when because of the increasing pressure of taxation, equity is more important." 

Selko points out that:

"In a study issued in 1939 by the Department of Justice, it was concluded that notwithstanding the Supreme Court's decision in the case of Pollock v. Farmers Loan and Trust Company (wherein it was held that the 1894 income tax applying to interest received from municipal bonds was unconstitutional) Congress now has the power to apply the Federal income tax to income derived from state and municipal bonds. With this conclusion the staff of the Joint Committee on Internal Revenue Taxation was unable to agree."

Irrespective of the merits of taxing government securities, the evidence seems to prove that school taxing units would find fiscal disadvantages accruing from the elimination of the immunity principle.
3. The ability to pay principle is paramount in considering tax justice.

The indication that taxes in general, including those levied by the Federal Government are not in accordance with the principle of ability to pay is of much concern to students of taxation. In a study made by the Temporary National Economic Committee and issued December 5, 1940, one section of the report dealing with the effect of existing taxes on economic recovery states:

"By 1938 about three-quarters of all tax revenues were not levied on the principle of "ability to pay."

The tax laws enacted by Congress since this date have not tended to improve the situation. It may be shown that in 1938, in order of importance from the standpoint of revenue produced the principal Federal taxes were:

1. Income taxes--personal and corporation
2. Payroll taxes
3. Tobacco taxes
4. Liquor taxes
5. Estate and gift taxes
6. Manufacture's excise tax
7. Customs

8. Corporation capital stock tax

The "ability to pay" principle is closely related to the incidence and shifting of taxes. Since the incidence of each type of tax is discussed in part two of this handbook only slight mention is made here. It is generally conceded by tax experts that the Federal income tax (personal) is ordinarily not shifted. Chism believes that one of the three most important findings of his study on The Shifting of Federal Taxes and Its Implications for the Public Schools is that:

"The states least able to support their schools under a system of state and local taxation based on the Model Tax Plan, the states which under their existing tax plans were least able to raise revenue out of their own economic resources to support their schools, the states which were able to keep their schools open the least number of days and furnish their children the poorest building facilities are the states which generally since 1928 and 1929, the Federal Government has called upon to contribute an increasing amount of such collections." 

It would appear that although many favorable comments have been made about the "ability to pay" principle and progression in taxation, the need for additional revenue on behalf of
the Federal Government has been stronger than the desire to have tax justice. While sufficient evidence apparently does not exist to cite as proof one way or the other; the practically unanimous approval of tax economists on the justice of the "ability to pay" principle and the findings of Chism mentioned previously provokes the question would the strict application of the "ability to pay" principle in the Federal tax system be beneficial to the fiscal administration of public school taxing units? The problem involved in the "ability to pay" may not be the issue of tax justice versus adequacy of revenue so much as which tax system will secure priority over tax collections. In any case unless the amount of Federal appropriations for public schools is increased the public school taxing units must continue to operate on the tax base delegated to them by the states.

4. The purpose and function of taxes have long presented material for controversy.

   Another problem emerging out of the Federal tax program which appears to be im-
important is the type of tax selected for use, with the concomitant problems of rate, purpose and function of the tax.

The circumstances involved in formulating the Federal revenue program may be listed under two major divisions namely, the enactment of tariff law provisions and the adaptation and adjustment of internal revenue laws. The tariff is no longer the serious issue that it was in the earlier days of the nation. However according to the beliefs of some the tariff acts of 1922 and 1930 were meaningful in that instead of relieving agricultural distress as planned, the results were merely a revision of rates which tended to aggravate economic conditions. Congress has delegated extensive regulative powers to the President, especially in the Trade Agreements Act of 1934.

The revenue aspects of the tariff seem to be of less importance to school taxing units than the considerations and enactment of laws pertaining to internal taxes. Selko says:
"Internal revenue taxation is an important problem, not simply because of the large amount of revenue to be raised and its effect upon the economy, but also because of the effect of a particular revenue program upon different groups of citizens. A tax law is not only a means of raising revenue: it is also a means of distributing the burden of governmental expenditures."

It is the opinion of the writer that the existing complexities of economic and social relationships are responsible for the more or less continuous revision of the Federal tax program which has been disconcerting in some instances. This idea is couched in clearly stated terms by C. Oliver Wellington, President of the American Institute of Accounting. He states:

"Federal taxes are a nightmare to business management, not because they mean that business must pay taxes but because of the uncertainty and nervousness they create."

He recommends some changes, one of which is that Congress create a qualified and representative non-partisan commission to study problems of taxation and draw up a permanent and consistent policy of taxation.

Differences in point of view pertaining to the purposes and function of a tax are not
of recent origin. Among some of the prominent advocates who conceived of the purpose of a tax narrowly, as merely the raising of money for the support of the state was Bastable (Bastable C. F., Public Finance, 3rd Ed. London, 1903). The literature on Federal taxation in 1941 is teeming with statements giving adherence to the "socio-political principle" though no general agreement on matters of application is observable. Under this point of view, the primary function of Government is to regulate the distribution of wealth by using taxation as a means not only of raising ample revenue to meet the needs of the state but of consciously regulating and designing the economic structure. It seems that some of the controversies which have developed over the issues of what the purposes and function of Federal taxes are center about the technical difficulties involved in the attempt to use taxation as a tool of social reform and the dangers of impairing its effectiveness for purely fiscal purposes. Distrust of the social ideals held by those in power also plays a role.
From the point of view of the fiscal administration of public schools, the purpose and function of the types of taxes selected for use by the Federal Government are important when there is impairment in the effectiveness of taxes for fiscal purposes in school taxing units due to: (1) the stress placed upon social reform; (2) the undue emphasis upon one type of tax which may also be used for the support of public schools and (3) the unfavorable influence upon business enterprise.


*The numbers correspond with like numbers in the bibliography.

The page numbers with dashes in between follow the colon.

A dash following the colon means that the author has referred to the entire reference.

Quotations are identified alphabetically in sequence. When the letters of the alphabet are insufficient "a1", "b1" and the like continue.
Question 2:

What factors produce tension in the Federal tax system which also create fiscal problems for state and local taxing units?

Answer to question 2:

The obvious changes in the economy of the nation in recent years, is a trite statement which has meaning when it may be shown that such primary economic facts as wealth, income and population have been affected and tensions have developed which tend to block or otherwise make ineffective the realization of desirable outcomes. It appears that this condition exists and that certain factors are operating to produce tension in the Federal tax system which in turn creates problems for state and local taxing units. These tensions may be observed from one or more points of view. According to Clarence Hoer, Professor of Economics, University of North Carolina, prominent among the economic and technical factors which have developed in the nation are:

1. "The high degree of economic specialization which tends to concentrate business and industrial activities in a limited number of urban areas."
2. The extensive territorial scope of modern business operations, a large portion of which transcend local and state boundaries.

3. The modern techniques in transportation and communication, which facilitate transfer of residence, changes in the location of physical property and shifts in the situs of business transactions.

The factors considered important in the political and social realms would appear to depend upon the theories that are held concerning the purposes and functions of government. In any case certain elements seem important from the standpoint of efficient tax procedures. Some of the circumstances are:

1. The dual system of government.

2. The multiplicity of taxing jurisdictions with overlapping boundaries and few or no plans for coordination.

3. The tendency to increase the number and cost of governmental functions.

4. The pyramiding of wealth in the hands of the few.

5. The growing divergency of viewpoints between capital and labor with the concomitant
problems of strikes, lock-outs, and the like which hamper private enterprise and production.

6. The extension of Federal ownership of taxable property which must be returned to private enterprise or placed on a revenue producing basis if permanent loss of tax revenue is averted.

The fiscal problems of state and local taxing units created by the tensions implied and others of similar import may be important primarily when they are applicable to adequacy of revenue, administrative efficiency and to equity. In brief, local governments and the schools depend heavily upon property taxes which are inadequate. Difficulties accrue from the multiplicity of tax returns necessary from the 150,000 taxing districts. The large amount of business which "transcends local and state boundaries" has created interstate competition and has been responsible for harmful trade barrier laws in numerous instances. Problems of evasion and avoidance have grown out of a lack of reciprocal tax laws, the inability of certain tax bases and the avenues of escape provided by the commerce clause of the Constitution. These difficulties and many similar ones have helped to
focus attention upon the seriousness of the fiscal problems confronting state and local taxing units. It is probable that the gravity of these problems and others of similar nature has influenced the passage of tax legislation dealing with homestead exemptions, "limitation" laws and the various "so-called" tax reform measures. It is conceivable that eventually some good may result from this impasse by forcing closer working relations between Federal, state and local taxing units and by developing tax interest sufficient to demand that taxing units define their tax policies in concise language.
Question 3:

Does Federal tax legislation, which is designed for the purpose of economic and social control affect public school taxing units?

Answer to question 3:

Certain acts of Congress may be cited which show that taxation may be a vital instrument of social and economic control. Among some of the internal tax laws which may be classified under this heading are:

1. The Processing taxes of 1933
2. The Bituminous Coal tax of 1935
3. The Social Security taxes of 1935
4. The Undistributed Profit tax of 1936

It seems to the writer that items 1, 2 and 4 may have had specific effects upon certain economic groups and areas and consequently affected local fiscal problems, while having a general effect upon the economy of the nation as a whole. The taxes levied because of the Social Security Act seem to have a different status. At the time of the passage of this act, many public school taxing units were having fiscal problems. According to the estimates of the Illinois Tax Commission made in 1937; there were 118,667 school taxing units. It appears safe to assume that when the Social Security Act was passed by Congress in 1935 that a large percentage of the school
district taxing units mentioned above were experiencing financial difficulties. Two other assumptions seem feasible: (1) a majority of public school administrators and board of education members approve of the purpose stated in the title of the Social Security Act; (2) it is the aim of most public schools to provide for the general welfare. Why then, does a problem exist?

From the standpoint of public school finance the results of the Social Security Act have been to produce troublesome fiscal problems in some cases. Competition exists in some areas for tax revenue. Cleavage has developed between the adherents for a more liberal interpretation of the laws governing the act and the proponents for more adequate financial support of the public schools. State legislation has been influenced in some instances by this problem notably in those states where more funds were needed for "relief" purposes and where the "old age" payments were heavy. According to the Committee on Taxation of the Twentieth Century Fund there is little relationship between revenue purposes and taxation designed to affect economic and social control. The statement of the committee follows:

"Taxes disturb free enterprise, since they always have some influence on economic activity. From this point of view, one of the secondary aims in choosing among taxes
would be to keep restrictive or distorting effects at a minimum. In sharp contrast
governmental control as a primary aim for
taxation is designed to influence economic activity in certain specific ways, regardless of revenue."

Selko makes the statement that nine-tenths of the Federal taxes collected come from internal taxes. He says:

"The problem of internal revenue taxation has been much greater than the tariff problem in recent years and has been growing in magnitude because of the greater demands continually being put upon the revenue system."

It was noted in a preceding question (No. 2) that the tariff acts of 1922 and 1930 may have been detrimental to the general welfare of the nation as a whole. It might be contended that all economic and social legislation, which also include tax provisions, influence the economy of the nation. In a sense this idea is tenable as may be shown by reference to the Federal Government's use of the tariff. The wide diversity of economic interests in the United States provides a situation where any change in the tariff policy or in the levies is certain to produce repercussion. Some areas or economic groups will gain advantages while others are adversely affected. For example, the lowering of duties on bovine products brought into the United States, would tend to alter the fiscal adequacy of local taxing units in certain cattle
raising communities. In this connection, it is interesting to note the position which leading tax economists have expressed in regard to the tariff. Out of 127 replies to the question "Should the tariff be used for revenue only?" 69 answered yes, 41 replied no and 17 expressed no opinion. While, when the question, "In general should there be a high protective tariff on agricultural or manufactured products?" was asked of this same group, 85 per cent answered no.

The application of the tariff may be especially meaningful to local taxing units at certain times and in certain areas. However, to many communities the tariff has only general influence.

It would seem that the public school administrator may, in most cases, find that the bulk of the tax laws which are designed to influence economic and social conditions generally and which may also affect the school taxing unit will rest in the interval revenue tax system and the subsequent effects upon the state tax legislation.

Question 4:

What significance may Federal tax evasion have for public school administrators?

Answer to question 4:

The interest which the public school administrator has in Federal taxation, of which evasion is a vital problem, would appear to depend upon the opinion held on one or more problems similar to the following:

1. Will the Federal government increase expenditures for public school purposes?
2. Are the public schools in the United States destined to come under more direct Federal control?
3. Are the public schools strategically equipped to assist with problems of taxation by developing a tax consciousness which is beneficial to the general welfare?

Tax evasion or dodging is a term which applies to practices of escaping the imposition of taxes by illicit methods. This practice should not be confused with the shifting of taxes or with any of the following methods of escaping tax burdens:

1. **Minimizing of taxes**—by legal reduction to the lowest level.
2. Avoidance of taxes—by the process of transformation, that is, changing the business so that the burden of the tax is offset.

3. Capitalization of taxes—by the process whereby the taxpayer avoids becoming the tax bearer by including the tax in the purchase price.\(^\text{ab}\)

Evidence that some taxes are evaded more than others was secured by the writer from a letter of inquiry directed to each of the officers in charge of taxation in the various states in 1940-41. According to this information, taxes on intangibles, commodities and in some instances poll taxes were evaded more than others. Personal income tax evasion practices in the higher brackets have been given ample publicity. It is probable that the percentage of evasion in personal income taxes will increase due to the larger number in this class of taxpayers since Congress in the first revenue act of 1940 broadened the base of the individual income tax.

While no adequate data are available to indicate the percentage of taxpayers in the United States who are inclined to evade taxes, C. H. Morrisett, Chairman of the State Tax Commission of Virginia, in a personal letter to the writer suggests a percentage which may be used as
a basis for comparison since it is proposed by an experienced tax administrator. He says:

"It has been our experience that about 15 percent of the potential taxpayers are inclined not to cooperate in the administration of the tax laws."

If the public schools would focus emphasis upon taxation and its relationship to democratic government, tax evasion practices might be materially reduced. To the extent that this occurred the public schools would have demonstrated that not only are they able to cope with problems of vital interest locally, but that the schools are strategically equipped to assist in the solution of social problems of significance to the nation.
Question 5:

Where can the public school administrator find convenient and reliable information pertaining to Federal taxes?

Answer to question 5:

Among some of the sources which appear to be worthy of consideration are:

1. The Presidential Messages contain tax revision suggestions which are referred to the Ways and Means Committee of The House of Representatives.

2. Laws for raising revenue must originate in the House of Representatives. Local representatives in Congress would probably be glad to keep the school administrator informed on any proposed tax laws.

3. The Joint Committee on Internal Revenue Taxation is probably more important than either of the first two sources from the standpoint of shaping the Federal revenue program. This committee investigates the operation and effects of the Federal tax laws, methods of simplification, administration and such other problems as it deems necessary.
4. A codification of the internal revenue laws of the United States was enacted into law on February 10, 1939. This is printed as volume 53 of the United States Statutes at large.

5. A comprehensive bibliography on Public Finance and Taxation prepared by Roy G. and Gladys E. Blakey of the University of Minnesota may be found by referring to pages 72-92 inclusive of the Proceedings of the Thirty-Second National Conference of the National Tax Association of 1939.

6. A glossary of the general terms used in taxation may be obtained from the "Assessment Principles and Terminology by the National Association of Assessment Officers" (See reference No. 108).

7. A glossary of the financial terms which are used by Federal government officials may be obtained from "The Federal Financial System" published by the Brookings Institution, 1940. (Reference No. 176)

8. The American Academy of Political and Social Science has devoted volume number
214 March 1941 to the problem of Taxation and the National Defense.

9. The Committee on Taxation of the Twentieth Century Fund made a survey of Taxation in the United States and a program for the Future. (References 199 and 200)

Chapter II

THE SIGNIFICANCE OF INTERGOVERNMENTAL TAX RELATIONS TO PUBLIC SCHOOL ADMINISTRATION

Coordination of Federal, state and local tax systems is one of the major problems now facing the tax experts, administrators and economists. Although some progress has been made, coordination is still in a rudimentary stage. The struggle existing is based upon two contrasting theses if the convergencies of viewpoint among tax economists and tax administrators may be used as measuring guides.

Because governmental activities are decentralized, the tax system of the United States is decentralized. This condition while granting greater freedom to small units to levy their own taxes and administer them as they see fit also produces disorganization in the system as a whole. Multiple taxation, accounting difficulties, undesirable conflicts, and numerous other problems arise. The discussion of whether the merits of local self-government are largely illusory naturally develops from this base.

The growing demand for revenues by most all taxing units has led to an increasing number of duplications in Federal and state taxes. The states in their earlier history were content with the property tax and the poll
tax. The Federal Government invaded the direct tax field when the sixteenth amendment to the Constitution permitted taxation of personal income. The states have followed in the development of this form of direct taxation.

Two taxes on the same base have had the approval of tax economists and tax administrators as long as the rates are not excessive. Conflicts develop when the urgency for additional revenue is felt. The overlapping jurisdictions which are competing for the same economic resources have not always been too considerate of the interests of the other taxing unit or of the taxpayer. This competition is not limited to Federal and state governments. Counties compete with cities and cities compete with school districts. One city or county may not tax real estate located in another city; but it may grant tax exemptions and offer other inducements. States compete with one another in similar fashion. Trade barrier laws are of recent origin and have created grievous tax tensions.

The problem appears to be how much centralization of the tax system can be placed in the Federal Government, yet retain a satisfactory amount of substantial freedom for state and local taxing units. Two prominent methods which are mentioned in the writings of tax experts as
desirable for developing coordination are shared taxes and Federal aid.

Shared taxes are the product of a method which has developed in an attempt to bring about intergovernmental coordination of the various tax systems.

The inherent limitations of a plan for the administration of taxes based upon decentralization are evidenced by the conflicts which arise resulting from overlapping and often competitive tax systems. Although there are several methods by which coordination may be obtained, the shared tax method seems to be one resulting from an attempt to stop short of complete centralization. The concept of shared taxes includes as the principal ingredient the idea of cooperation between the various taxing units with due consideration being given to the welfare of the taxpayer by each taxing jurisdiction. Other methods of solving the constantly increasing conflicts developing in the approximately 160,000 taxing districts in the United States may be more administratively efficient. Other methods may be less in harmony with the cherished goals of democracy. Is the present tendency to share taxes between the state and its subdivisions only an evolutionary step in the process of centralization? Would it be more desirable to have state subventions and grants-
in-aid distributed according to some principle of equalization, than to have the state administer the tax, distributing back that share which the community has contributed minus, of course, the cost of the administration?

From an administrative viewpoint the shared tax plan seems to be lacking in adaptability. It appears significant that the Federal Government has not yet made use of the shared tax method, notwithstanding the steady growth of this plan since 1900 among the state and local governments, nor the fact that the Federal Government has distributed great sums of money to the states and localities in connection with the social security measures. The Federal Government has made considerable use of subventions, grants-in-aid and the crediting device, the latter in connection with inheritance taxes and payroll taxes.

Since 1930 the Federal Government has increased greatly a policy of grants-in-aid to induce the states to develop activities that the Federal Government had no power to force upon them. The Federal aid in most instances has been distributed through state channels and the states have supervised the expenditures. Essentially the extensive Federal aid program has been a depression phenomenon. In addition to expenditures made for compliance with the Social Security Act, substantial sums have been
granted by the Federal Government to promote "relief," highway construction and other purposes.

Numerous writings of tax administrators and tax economists contain warnings that grants-in-aid signify a loss of independence by the receiving jurisdiction. Two restrictions may invariably be anticipated, namely a demand for a specified quality of service and a pre-determined amount of financial participation. General supervision of the project follows the grant.

The Federal Government has not made use of the shared tax principle although many plans have been proposed. The states have adopted the practice of sharing state taxes with local governments. Two principal contrasts between the grant-in-aid and the shared tax are (1) The amount of the shared tax usually varies from year to year with the yield of the tax whereas the amount of the grant is measured by the need of the receiving jurisdiction. (2) The grant is more readily accompanied by central control than is the shared tax.

It appears that increased Federal aid means increased Federal control. The separation of sources of Federal and state tax revenues, which was common in the early history of the nation has been definitely abandoned. Crediting devices have been used successfully to minimize
conflicts between Federal and state governments and recommendations of many tax economists have been made favoring the extension of this principle introduced in 1924 for death taxes.

Several questions arise in the consideration of grants-in-aid, shared taxes and the centralization of administration in the field of taxation. Can the extensive redistribution of wealth between geographical areas through taxation and grants-in-aid be defended on economic grounds? Will an extended Federal aid program tend to perpetuate submarginal communities that might, for long run planning, better be liquidated? What will be the eventual position of fiscally independent public school systems under a system of Federal aid for education? Is it possible to have the benefits believed to be inherent in the centralization of administration and at the same time retain a desirable measure of local responsibility? If nationalization of education is desirable and in accord with the economy of the nation, the public school administrator should increase his interests in the procedures which will hasten the extent of Federal aid for public education in the United States. From the point of view of public school administration, it seems significant that the choice of methods employed to promote coordina-
tion among the tax systems should be such that the attainment of public school objectives is not diminished. The adoption of the better methods of coordination of Federal, state and local tax systems is a vital problem which the public school superintendent should help to solve. The position taken by a board of education on this important problem may well be reflected in the tax policy of the school which the superintendent may assist in formulating.
Question 6:

What state-administered locally-shared taxes go to the support of public schools?

Answer to question 6:

According to data obtained from "Tax Systems" (eighth edition 1940) published by the Tax Research Foundation, the schools participated in the distribution as follows:

<table>
<thead>
<tr>
<th>Name of Tax</th>
<th>July 1, 1939</th>
<th>Basis of Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Date of Law</td>
<td>Proportion Distributed</td>
</tr>
<tr>
<td>Florida</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Vehicle Carriers</td>
<td>1931</td>
<td>90%</td>
</tr>
<tr>
<td>Motor Vehicle Registration</td>
<td>1927</td>
<td>100%</td>
</tr>
<tr>
<td>Retail Occupations</td>
<td>1935</td>
<td>100%</td>
</tr>
<tr>
<td>Georgia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel Oil Tax</td>
<td>1937-38</td>
<td>33.3%</td>
</tr>
<tr>
<td>Intangibles Tax</td>
<td>1937-38</td>
<td>33.3%</td>
</tr>
<tr>
<td>Motor Vehicle Fuel</td>
<td>1927</td>
<td>33.3%</td>
</tr>
<tr>
<td>Iowa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homestead Exemption</td>
<td>47 gen.</td>
<td>100%</td>
</tr>
<tr>
<td>Kansas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Sales</td>
<td>1937</td>
<td>&quot;Earmarked&quot; Equalization principle.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Louisiana</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquor License and Excise</td>
<td>1933</td>
<td>Residue, after special formula. am't &quot;earmarked&quot; to charitable institutes</td>
</tr>
<tr>
<td>Severance</td>
<td>1922</td>
<td>Residue after special formula. appropriations to severance tax fund</td>
</tr>
<tr>
<td>Name of Tax</td>
<td>Date of Law</td>
<td>Proportion Distributed</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Chain Store</td>
<td>Michigan</td>
<td>100%</td>
</tr>
<tr>
<td>Corporation Organization Fee</td>
<td>1929</td>
<td>100%</td>
</tr>
<tr>
<td>General Sales</td>
<td>1933</td>
<td>Residue after appropriations</td>
</tr>
<tr>
<td>Inheritance</td>
<td>1929</td>
<td>100%</td>
</tr>
<tr>
<td>Liquor Mfgrs. License and Beer Excise</td>
<td>1933</td>
<td>Residue</td>
</tr>
<tr>
<td>Name of Tax</td>
<td>Date of Law</td>
<td>Proportion Distributed</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Public Utilities</td>
<td>1929</td>
<td>100%</td>
</tr>
<tr>
<td>Specific Insurance</td>
<td>1929</td>
<td>100%</td>
</tr>
<tr>
<td>Premium Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chain Store</td>
<td>1933</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax</td>
<td>1933</td>
<td>100% less cost of adm.</td>
</tr>
<tr>
<td>Swamp Land</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Insurance Co.</td>
<td>1929</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Name of Tax</td>
<td>Date of Law</td>
<td>Proportion Distributed</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Contractors License</td>
<td>1923</td>
<td></td>
</tr>
<tr>
<td>Electric Utilities</td>
<td>1934</td>
<td>25%</td>
</tr>
<tr>
<td>Inheritance</td>
<td>1923</td>
<td>50%</td>
</tr>
<tr>
<td>Natural Gas Producers and Distributors License</td>
<td>1933</td>
<td>50% of residue of amount not needed for emergency relief</td>
</tr>
<tr>
<td>Name of Tax</td>
<td>Date of Law</td>
<td>Proportion Distributed</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Oil Producers License</td>
<td>1933</td>
<td>25% for high school</td>
</tr>
<tr>
<td>Telegraph Company License</td>
<td>1934</td>
<td>25% residue after amount for emergency relief---in any case 5%</td>
</tr>
<tr>
<td>Railroad and Canal Tax</td>
<td>1888</td>
<td>Residue after deduction of 0.5% to total valuation on which tax is assessed for state administration, and appropriations to various state educational activities (Teachers College, retirement Rutgers, etc.)</td>
</tr>
<tr>
<td>Name of Tax</td>
<td>Date of Law</td>
<td>Proportion Distributed</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>-------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>National Bank Income</td>
<td>Art. 9c</td>
<td>100%</td>
</tr>
<tr>
<td>Personal Income</td>
<td>Art. 16</td>
<td>13% approx.</td>
</tr>
<tr>
<td>State Bank, Trust Co., and Finance Corporation Franchise</td>
<td>Art. 98</td>
<td>100% of proceeds from dom. concerns</td>
</tr>
<tr>
<td>Name of Tax</td>
<td>Date of Law</td>
<td>Proportion Distributed</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Excise Tax - Cigarettes</td>
<td>Ohio</td>
<td>100% adm. cost</td>
</tr>
<tr>
<td>Liquid Fuel Tax</td>
<td></td>
<td>100% adm. cost</td>
</tr>
<tr>
<td>Beverage License</td>
<td>Oklahoma</td>
<td>1933 95%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>Utah</td>
<td>1933 Residue after $2,000,000 to relief</td>
</tr>
<tr>
<td>Business and Occupation</td>
<td>Washington</td>
<td>52 1/4%</td>
</tr>
<tr>
<td>Private Motor Vehicle</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Excise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forestry Crop Land</td>
<td>Wisconsin</td>
<td>100%</td>
</tr>
<tr>
<td>Forest Crop Severance</td>
<td></td>
<td>100% minus cost of adm.</td>
</tr>
<tr>
<td>Name of Tax</td>
<td>Date of Law</td>
<td>Proportion Distributed</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>-------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Income Tax (Teachers' Retirement Surtax)</td>
<td></td>
<td>40% of amt.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquor Excise</td>
<td>1935</td>
<td>100%--Adm.</td>
</tr>
<tr>
<td>State Railways, Light, 1935 Heat and Power Co., Conservation and Regulation Co.</td>
<td></td>
<td>85%</td>
</tr>
</tbody>
</table>

Question 7:

What consideration should the public school administrator give to shared taxes in connection with the fiscal administration of public schools?

Answer to question 7:

Among the considerations which appear important is the meaning of shared tax. A definition of this term is credited to Clarence Heer. He says:

"A shared tax is a centrally administered tax, a fixed proportion of the proceeds of which is distributed among underlying jurisdictions on the basis of the presumed contribution of each, no specification being made as to how the sums distributed shall be expended."

An analysis of this definition shows that the state is simply collecting the taxes for the locality, retaining a percentage, no doubt as a minimum, for the cost of collections. It appears that the local taxing units have a vital interest in the amount of contribution and the method of distribution.

The scope of the shared tax movement may be summed up by stating that the Federal Government and three states -- North Carolina, Vermont and West Virginia do not share any taxes. Tax experts have recommended that the Federal Government adopt this plan for personal income, corporation income, manufacturer's sales tax and certain excise taxes as tobacco, liquor and motor fuels. The majority of states
share one or more of the following taxes: gasoline, motor vehicle, corporation income, inheritance, liquor and general sales. The growth of state shared taxes for one state is shown by the fact that in 1916 New York State shared taxes amounting to $36,000 while in 1938 this amount had increased to $78,162,000. It may be cited that sharing of taxes is not a new adventure in the realm of state-local fiscal relationships.

Another consideration which appears significant from the viewpoint of fiscal adequacy is comparison of the state administered locally-shared tax plan with state subventions or grants. A grant from the pooled revenues of all taxes in the general fund of the state provides a measure of stability because the state budget is better able to adjust the variances due to local problems. Subventions and grants-in-aid require a criterion—a scheme of distribution—a defensible technique. Such a plan implies equalization which in a democracy seems feasible although exponents of "home rule" find fault with such procedures. Areas which contain considerable taxable wealth or income are usually taxed more under this plan on the basis of their greater ability to pay.

The shared tax principle may be less desirable from the standpoint of fiscal adequacy because it lacks in
flexibility and stability. The largest amount of tax collections will probably be returned to the schools which need the revenue the least. The tax revenue may be adequate one year, excessive another and deficient a third year. School budgets are not subject to such fluctuations.

Question 9:

From the point of view of the public schools what advantages has Federal aid over state and local aid?

Answer to question 9:

Among the tests applicable to a good tax system are: fiscal adequacy, administrative efficiency, equity, and economic effects.

When the test of fiscal adequacy is applied to the Federal tax system, it can be shown that the Federal Government has priority in all of the different types of taxes excepting property taxes. The Federal Government has the widest range of productive tax sources at its disposal and is free to exercise efficient tax administrative procedures. It would appear that fiscal assistance for the schools should be derived from the most stable tax base.

The Federal Government is in a strategic position to administer tax laws more efficiently than state and local taxing units. Freedom from interstate competition, the prestige of the Federal Government, and the inherent advantages of centralization are three considerations which should aid the Federal taxing unit to decrease administrative costs, lessen the annoyance and expense to the taxpayers and reduce the amount of evasion and avoidance.
of taxes. It would seem that certain advantages would accrue to the schools when needed revenue is raised by these methods.

From the point of view of equity, the Federal Government tax system has some advantages over state and local taxing units. The Federal Government is free of trade barrier complications at present presenting difficult problems to the states. Corporation income and direct personal taxes provide two-fifths or more of the total Federal tax receipts. The property tax is the only type of tax in which the Federal Government does not have priority although as yet this level of government has not employed the general sales tax for revenue purposes. Many tax economists and laymen give testimony to the equitable-ness of the ability to pay principle in taxation. In some instances the states have ignored this standard of tax justice, especially by applying the sales tax to all essential commodities and at high rates. There is a prevailing tendency to analyze each tax from the standpoint of special group or individual benefit derived with the idea that such groups or individuals should bear the burdens in proportion to the benefits received. Thus, frequent reference is made in the writings of tax experts to the effect that highway costs should be financed through motor
fuel and motor vehicle license taxes. To the degree, that public education is of national interest, and the benefits are well diffused, Federal taxation for the support of the schools appears to be justifiable.

From the standpoint of economic effects the Federal Government has the same advantages previously mentioned concerning its freedom to select fiscal measures appropriate to give realism to the program of promoting the general welfare. The writer feels that here political influence and the national economy may alter the normal applications of any tax plan designed on objectives not in full accord with those in power.

The public school administrator who has an interest in the reconstruction of educational finance may find that it is but a phase of the total program of governmental reorganization of taxation procedure. Certain fundamental concepts will be needed to make decisions meaningful. Four such ideas are believed to be included in the following:

1. A democratic form of government is uniquely dependent upon an enlightened participating citizenship.

2. The complexity of present day world economy obviously calls for increased interest in
efforts to learn both as a necessity for keeping pace with world affairs, science and inventions, and in order to avoid stalemate or regression in the efforts to obtain the objectives of democracy.

3. Any fully acceptable program of taxation for the support of the public schools should conform in principle with the objectives of education and democracy.

4. Increased Federal aid for the public schools would among other advantages tend to promote national unity, a factor not to be considered unessential in a country with so many divergent philosophies, viewpoints, and economic interests.

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Question 9:

What plans, which affect taxation, have been proposed by the proponents of Federal aid to the public schools?

Answer to question 9:

Such fiscal factors as the distribution of the tax burden, economy of tax administration, and the control of expenditures are affected by plans which have been used or suggested for use in connection with Federal aid for the public schools. Three methods of distributing Federal aid are:

1. The matching or percentage grant
2. The grant apportioned in accordance with some measure of educational need
3. The equalizing grant

Under the latter method two factors are considered—the educational need and the financial ability to support a minimum educational program. Several devices have been proposed for distributing Federal aid, most of them patterned after plans employed in various states. Staff study five prepared for The Advisory Committee on Education by Paul R. Mort, Director of the Advanced School of Education, Teacher's College, Columbia University and Eugene S. Lawler, Professor of Education at Northwestern University.
is devoted to Principles and Methods of Distributing Federal aid for education. The following three plans are summarized in this study:

"Plan I. Realizing a defensible foundation program.
Federal aid to enable all states to provide a $48.00 foundation program in all communities without unduly handicapping local initiative would require an annual appropriation of $576,000,000.

Plan II. Realizing a defensible foundation program and equalizing the financial burden.
Federal aid to enable all states to provide a $48.00 foundation program in all communities and to distribute the burden equitably would require $1,180,000,000 annually.

Plan III. Realizing the defensible foundation program, equalizing the financial burden, and assisting in tax reform.
Complete support of the $48.00 foundation program by the Federal Government would insure the program and would revive local
initiative by relieving the excessive burden on the property tax. It would require Federal aid to the extent of $1,979,000,000 annually.

It is evident from a study of these three plans that more emphasis given to tax reform progressively increases the amount of Federal aid.

A uniform tax plan used to measure state and local ability has been suggested by Mort and Lawler. It would include:

1. A progressive income tax
2. A real estate tax
3. A business tax
4. A stock tax
5. A severance tax
6. A corporation tax (organization)

The Biennial Survey of Education for 1937-'38 includes a graph showing the source of the school dollar in cities of 10,000 and more population in 1933. According to this information only 1.5 per cent of the total expenditures of all city school systems of this size in 1933 was derived from the Federal Government.

It is evident that plans for distributing Federal aid to public schools are yet to be tried on any major scale and it is doubtful if such plans will ever be used as tax reform measures.
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Question 10:

How does Federal aid to the states compare with that provided by the states to minor jurisdictions?

Answer to question 10:

From the standpoint of method of distribution, it may be said that the Federal Government has placed more emphasis on the matching or percentage grant plan than have the states. The states have experimented with earmarking and the shared tax principle.

Considered from the viewpoint of amount of aid, the evidence indicates that the Federal Government has been more active in extending aid to the states than the states have been in helping its subdivisions. The Tax Policy League gives the following information:

"Federal aids to the states increased from $113,700,000 in 1925 to $2,629,900,000 in 1935. In other words Federal aids in 1935 were approximately 23 times as large as in 1925. Over the same period state grants to minor jurisdictions increased from $340,600 to $773,100,000. This increase though substantial did not approximate the rise registered by Federal aids."a

Compared from the standpoint of degree of control following the grant, it may be cited that the Federal Government has in most instances specified definite regulations to accompany the matching or percentage grant. In many instances in connection with the unemployment programs, the Federal Government has taken over all initiative,
leaving other jurisdictions little or no leeway. The states have not exercised their priorities to a similar degree. Local taxing units have been left to make expenditures as they deem wise with few exceptions. It would appear that either the states do not wish to extend control or have found it politically inexpedient to do so or the shared tax and earmarked plans are not readily adaptable to control procedures.

The fact that the Federal Government has taken the lead in granting aid to the states in substantial sums for various purposes may be significant to public school administration in two ways: (1) increased state appropriations for public schools may follow; (2) Federal aid to public schools may be increased.

Chapter III
THE DEVELOPMENT OF TAX POLICIES AS
A TAX REFORM MEASURE

The literature in the field of taxation dealing with tax policies largely discusses this subject from the point of view pertaining to the theory and effects of certain types of taxes. For example, Grether and Davisson, Tax Economists of the University of California state, in discussing Tax Policy and Price Fixing as Economic Controls, that:

"Tax policy appropriate to a situation of full employment with emergency pressures would involve maximum use of income, estate, and excess profits taxation, supplemented by taxes which would achieve over-all restriction of consumption. A graduated wage tax would seem the least objectionable method of bringing about this restriction." (Grether, Ewald T. and Davisson, Malcolm M., Tax Policy and Price Fixing as Economic Controls for Defense Mobilization, The Annals of the American Academy of Political and Social Science, Volume 214, March 1941.)

It seems to the writer that a tax policy should be a frame of reference from which the tax student, administrator, agent or taxpayer could ascertain the fundamental principles which undergird the tax system.

A Committee of the National Tax Association in 1918 proposed a model plan for State and local taxation. A second Committee revised this plan in 1933. (Proceedings of the National Tax Association, 1933 pp. 353-420.) Apparently certain assumptions were made by the committee.
in 1918 though they were not stated. It would seem that these postulations would need to include the following:

1. The best tax system is one that most fully promotes the public interest.

2. Tax economists are qualified to design a tax system which is suitable for a model.

3. The committee is competent to determine what is the public interest in the United States.

4. The existing system of business enterprise with some governmental control will continue.

The Committee on Taxation of the Twentieth Century Fund refutes these assumptions to some extent when the remarks on tax policy are concluded by stating:

"The tax student may contribute technical knowledge for devising methods that will achieve desired tax aims. He may assist in discovering common interest. However, where a conflict of interests is involved, his ideas of what tax aims are in the public interest can be only opinions. These opinions will inevitably color his conclusions and recommendations." (General Conclusions, Committee on Taxation, The Twentieth Century Fund, 1937, Facing the Tax Problem p. 393.)

The Model Tax Plan proposed by the Committee of the National Tax Association was designed for a plan of state and local taxation. The Federal-state-local tax relations have undergone numerous changes since 1918 and some since
1933. Centralization of government has increased in considerable degree. It does not appear feasible to have a tax policy or plan of taxation which does not take into account the Federal tax program. Should not the tax policies of state and local taxing units implement and enhance the Federal tax policy in order to promote national unity?

It was mentioned in a preceding question (Chapter 2, question 2) that the Illinois Tax Commission estimated that there were some 161,144 taxing units in the United States. Of this number there are supposed to be 118,667 school district taxing jurisdictions. (Atlas of Taxing Units, Illinois Tax Commission, Springfield 1939) It is probable that in many cases local governments and school taxing units have coterminous tax areas. Other cases may exist where there are common taxing and budgetary authorities. Can the conflicts arising from the overlapping tax powers of the various taxing jurisdictions in the United States be materially reduced? Should there be many tax policies or one Federal policy with many state and local adaptations? Can a reasonable degree of uniformity of procedure be attained in the field of taxation without sacrificing the values inherent in a decentralized form of government? These among other questions seem pertinent
to the consideration of tax policies irrespective of the taxing unit for which the policy is formulated.

There is a lack of complete uniformity in many phases of governmental activity. In a democracy this may be entirely feasible. If, however, each taxing unit would formulate a definite tax policy—definite in the sense that tentative positions are enumerated on major tax problems—patterned after the Federal policy; this would seem to be a step toward a reasonable amount of uniformity of procedure and yet would provide avenues of flexibility which are assumed necessary to sustain the democratic pattern of society in the United States.

Since the board of education in most public school taxing units is a policy making body; should not this group formulate such a tax policy for the school taxing jurisdiction? The material used in answering the two questions on tax policy is designed to enhance this proposal. It is assumed that in technical matters the superintendent of schools is frequently requested to help formulate policies.
Question 11:

What progress has been made by Federal, state and local taxing units in formulating clearly designed tax policies?

Answer to question 11:

If a tax policy is thought of as a settled or definite course or method adopted and followed by a taxing unit at least for a tentative period of time, what can be said concerning the Federal tax policy? The literature on tax policies is relatively meager and in many instances appears to be the product of biased opinion. In no case, has any policy been suggested which is stated clearly in regard to the position taken on specified problems. The Federal tax policy is fairly well circumscribed by Constitutional provisions and restrictions; some slight variances accompany each change in political administration but the pattern remains fairly constant. In accordance with economic and social developments, complexities in tax procedures have increased. Federal Government tax needs have expanded as new obligations have accumulated. Conflicts have increased in number among the numerous taxing units. These and similar reasons have caused the Federal Government to try out new tax ventures. It seems that increasing interest has been given to tax policy plans
with the expressed hope that tax procedures will be stabilized and intergovernmental coordination developed.

The states, in some instances have used the alibi that the absence of a stated Federal tax policy prevented the state from formulating a definite tax program. Another factor which may be considered is the fact that state legislators frequently have short tenure, are poorly paid and are untrained in legislative procedures--points which tend to delay and obstruct coherent progressive tax legislation. This difficulty has been met by some state legislative groups, notably Kansas where trained and experienced personnel are employed for tax research and advisory purposes. Special interest groups continue to be the chief proponents for Constitutional amendments which affect taxation. It is the opinion of some tax experts that most tax laws should be statutory measures and thereby amenable to change.

Since local government rests upon delegated authority from the state, it is reasonable to expect that in most instances, local officials would look to the state for initiative in formulating tax policies. Some states grant almost unlimited powers to the political subdivision and to the school taxing units. It is conceivable that in 160,000 or more taxing units in the United
States, there may exist tax policies which are noteworthy but which are unpublished or unheralded. However, the writer has found no evidence to show that any such tax policy has been formulated.

Question 12:

What should be included within the scope of a tax policy for a fiscally independent public school system?

Answer to question 12:

The following items are proposed as properly belonging within the scope of a tax policy for a fiscally independent public school system.

1. Relationship between Taxation and Economic Activity.

The board of education should use the taxing power vested in it in such a way that free enterprise will be encouraged rather than disturbed.

Each tax levied should be for revenue only, yet should be judged partly by its effect on other communal policies and activities and should in so far as possible implement the state and Federal tax policies.

2. Social Control.

All taxation tends to affect the economic life of the community. In so far as the board of education is concerned, the taxing power vested with it should have the purely passive purpose of producing revenue. Social control should be indirect and achieved through
educational expenditures for community advancement and state and Federal welfare.

3. **Taxable Capacity.**

The board of education should recognize the concept that the taxable capacity of any taxing unit has three distinct limits—legal, economic, and political.

A full review of the probable effects of a tax on these limits should be considered before any tax is levied.

4. **Tax Reform**

The board of education should have an active interest in all matters leading to reform and improvement of existing taxation problems.

It should be a fundamental principle that the board of education is represented and will participate in all regional meetings, studies, or other activities dealing with problems of taxation.

5. **Tax Sources**

The board of education should recognize that the property tax is practically the sole taxing instrument of the local school taxing unit.
The board of education should further recognize that with the large number of taxing units there are many complexities and much overlapping. The board should also recognize that although new sources are found, it is generally agreed that the masses eventually carry the tax load.

The board of education should however, be constantly alert for any new sources of revenue, whether by tax or otherwise, which would relieve the burden on property when this burden is excessive.

6. **Size of Tax Area**

The board of education should recognize that the size of the taxing unit area may be more important for the school than for other governmental taxing units. Recipients of service can be brought to a centralized place in the school taxing unit. Service must be carried to the people in many other taxing units.

The board of education should be interested in having a tax area sufficiently large to maintain efficiently and justify
an effective school unit. Problems of distance, means of transportation, ease of attendance and suitable buildings and equipment should be considered.

7. Tax Associations

The board of education should work cooperatively with all tax associations who have for their purpose the improvement of tax administration and the establishment of tax justice.

8. The Number and Suitability of Tax Items

The board of education should be interested in keeping the number of tax items to a minimum. Tax items for the support of the public schools should not include those whose moral effect is in conflict with the purposes of education in the United States, such as liquor taxes. (cf. with question 29.)

9. Legal Tax Limitations

The board of education should make known that the prevalent tendency to impose tax limitations by law is unnecessary and not of benefit to local community welfare.
10. **Shared Taxes**

The number of shared taxes should be held to a minimum. The board of education should recognize that to the degree that taxes are collected by the state and shared with the local taxing unit, fiscal independence is invalidated.

The board of education should recognize that certain taxes are of such nature that the collection and administration need to be on a state or Federal basis. In some instances, these taxes should be shared with the local taxing unit. Among these are income taxes, death and gift taxes, sales taxes, and severance taxes. If shared tax plans are not feasible, tax revenues from these sources should be deposited in the state general fund from which the local schools will participate in the disbursements on some principle of equalization. (cf. with question 9, page 68)

11. **Equalization of the Tax Burden**

The board of education should recognize the problems of inequality in distri-
bution and of assessment. These are problems dealing with the administra-
tion of the tax system and the legal compliance.

The board of education should support the idea that enlarged taxing areas tend to eliminate inequality in distribution of the tax burden while the problem of inequality of assessment is frequently one resting with the personality of the assessor.

12. **Tax Consciousness**

The board of education should assume that responsibility for the development of a tax consciousness along with an understanding of the need and value of a tax system in a democracy, is a definite part of the public school curriculum.

13. **Tax Exemptions**

The board of education should oppose exemptions except for strictly governmental functions. Exemption is always at someone's expense. It is a
form of subsidy. Exemptions granted to non-governmental agencies are not in harmony with the purposes of education for a democracy. When feasible a chart should be kept showing tax exemption practices in the school taxing unit.

14. Tax Delinquency and Law Enforcement

The board of education should oppose the tendency during the depression years, to give inducements to delinquent taxpayers. Remissions should not be made, penalties should not be reduced and moratoria should not be granted.

15. Publicity

The board of education should support the theory that controlled publicity is a valuable tool in promoting a tax consciousness free from resentment. Further controlled publicity may be useful in the reduction of tax exemptions and tax delinquency. Tax exemptions in dollars should be published for all non-governmental agencies.
16. **Tax Evasions**

The board of education should subscribe to the theory that tax evasion is a form of stealing from the common weal. To the extent that a tax can be evaded, the tax with its administration is ineffective.

The board of education should encourage the efforts of teachers and administrators to focus attention on the problems of taxation. This is especially pertinent since the equivalent of about $100 per inhabitant is collected in taxes each year.

17. **Cooperation**

The board of education should respect the position of the taxpayer. It should recognize that the tax systems, overlapping as they do, may produce confusion. It should be further recognized that money paid out in taxes for education cannot be at the same time placed in the bank for the comfort of old age or for the buying of luxuries.
Chapter IV

THE RELATION OF TAXPAYERS' ASSOCIATIONS
TO PUBLIC SCHOOL ADMINISTRATION

Taxpayers' associations are among the many social agencies peculiarly associated with a democratic form of society. Just as labor organizations have the privilege of "striking" or vested interests exercise the right to lobby for "privilege" legislation, so have individuals interested in taxation the right to band together for special reasons pertaining to their mutual welfare.

The people of the United States speak often of the rights and privileges granted to citizens by the Constitution. Freedom of speech, freedom of organization, liberty of action, and many other inherent virtues are associated with the idealism of democracy. The question arises: Are there any restrictions? How far may any group go before jeopardizing the rights and privileges of other citizens or the welfare of the nation? Will a balance of power be naturally effected by conflicts of groups with contrasting goals?

There is some evidence in the literature on taxation which tends to expound the idea that some legislative or other effective control measures are desirable and probably essential for certain groups of organized citizens. That is, no group or groups of citizens should be permitted
to obstruct unduly the progress of normal processes of sociological and economic changes necessary to the welfare of democracy.

If it is basic for democracy to have participating citizens, it seems logical to state that a democratic form of government worthy of a position of leadership in an advanced civilization must depend upon an enlightened and educated populace with a large measure of unity of purpose on matters pertaining to national welfare. To the extent that the citizens are ignorant or poorly informed on world economy, which predisposes an understanding of national and local economy, the nation must fall short of attaining the desired goals implied in democratic idealism. Education then in its broader sense, national in scope and adaptable to democratic needs, is not only desirable but its obstruction is untenable.

The record of action of taxpayers' associations furnishes available proof that all goals sought by these groups can not be defended on grounds of national welfare or in some instances of community or state welfare. Many of the goals of taxpayers' associations are worthy of the support of all citizens interested in preserving efficiency in democratic government. Other objectives may well be challenged as to their ultimate effects. It is
easily conceivable that this type of organization may harbor a type of citizen in the United States who would be willing to sacrifice total group welfare for personal advantages and aggrandizement. Would it not be administratively wise to participate actively in local and state taxpayers' association? Can public school administrators afford to refrain from such participation?

It is probable that there are some employees in each school system who are taxpayers of consequence. The school superintendent might wisely encourage generous affiliation of employees with taxpayers' associations as a part of the public relations program. Recommendations should be made that school employee taxpayers compare the objectives of the association with those formulated for the schools. Taxpayers' associations are usually organized on a state-wide basis with headquarters in the capital city. It would be advantageous in many instances to the school taxing units throughout the state; if the executive secretary of the state teachers' association in conjunction with the city superintendent in the capital city or other public school professional leaders, would assume the responsibility of keeping the public school administrators of the state informed on the activities of the state taxpayers' associations.
There are instances where the objectives of school administrators and of taxpayers' associations have been in accord. It seems to the writer that these instances might be increased in number if public school administrators would realize that they cannot afford to ignore the importance of taxpayers' organizations in the planned public relations program.
Question 13:

What functions and activities of taxpayers’ associations affect public school administration?

Answer to question 13:

Broadly speaking the function of taxpayers’ associations is the control of local finance. The means of control are through such channels as:

1. Investigation and research
2. Publicity
3. Organization procedures
4. Influencing legislators

Investigations and research, like statistics may sometimes be used to prove a point irrespective of the objective. Public opinion is supposedly influenced by the findings of investigations and research. Interested groups represented by newspapers, magazines and radios frequently see news value in the results of investigations and research problems. This phase of publicity is free, spontaneous and supposedly effective. Follow-up materials, in the form of leaflets, pamphlets, and paid advertisements are often used. Arousing interests through investigations and publicity are believed to be feasible approaches to organizational procedure. A series of minor organizations or subsidiary organizations may aid in any program designed to influence state legislation.
It would seem that the function of controlling local finance is subject in part to the technique of controlling public opinion, which may be analyzed step by step as follows:

1. Taxpayers have mutual interests which are psychological and dominant.

2. Tensions are common experiences in most taxing units.

3. Investigation and research, reputable procedures for furnishing reliable information may be used to the advantage of tax associations.

4. Findings are used in all free sources of publicity and in such paid circumstances as are deemed advisable.

5. Organizations may be formed in all communities possible, officers elected, committees appointed and duties assigned with focus on some particular problem. (Usually negative in nature.)

6. Cooperation is stressed in order that legislation favorable to the associations may be enacted.

The writer has no evidence to show that taxpayers' associations accept the function of control of local
finance as a standard. However, the activities in which organizations engage give some indication of the functions, but only such functions as the association desires to stress. It would appear that there exists a definite relationship between the activities in which the taxpayers' associations participate and the interests which they have.

A few of the activities in which different state associations have engaged according to Claude R. Tharp, author of Control of Local Finance through Taxpayers' Association and Centralized Administration, are:

"The Arizona Taxpayers' Association maintains auditing and legal departments. Representatives from these departments review county and city budgets with a view of eliminating unnecessary items and reducing those that are excessive. Proposed bond issues are investigated and the influence of the association is used to defeat those which appear unnecessary or excessive.

The California Taxpayers' Association participates in many projects covering a wide variety of interests. These projects include special studies of local governmental units, comparative statistics, uniform accounting systems and budgeting and bonding procedures.

The Kansas Taxpayers' Organization in 1933 sponsored a number of new laws to reduce government cost, including laws to lower tax limits on local levies; to reduce salaries of county and state employees; to reduce biennial appropriations 4.5 millions for 1934-1935."
Local taxpayers' associations in Louisiana have appointed appropriate committees on public expenditures.

The Massachusetts Tax Association has helped over 120 local organizations to form for the purpose of curtailing municipal expenditures.

The Minnesota Taxpayers' Association has been concentrating its efforts mainly upon the reduction of local governmental costs.

In 1932 the Montana Taxpayers' Association examined levies in 2,200 school districts, 56 counties and 115 cities and many levies were reduced as a result of its recommendations.\(^\text{8}\)

The secretary of the Indiana Taxpayers' Association is credited with stating in an article written for the Kansas City Star, June 26, 1932:

"Field men of the Taxpayers' Association found tremendous wastes and graft in the transportation of pupils in rural schools. There were 5,000 buses and drivers engaged in this State and the cost in the same county often varied as much as from $15.00 to $50.00 to the pupil a year under the same conditions and distances. In one county the cost varied from $23.00 to $100. We aroused the taxpayers to these conditions. . . . In many districts teachers' salaries were too high. In many other districts the people seemed to have gone crazy over basketball and rural schools already overtaxed were paying $4,000 a year for athletic coaches. . . .\(^\text{9}\)

More light is thrown on the zeal of certain associations by A. C. Rees in Reports of Western Taxpayers' Associations, The Tax Digest, November, 1932. He says:
"What may be regarded as the outstanding accomplishment of the year has been the modification and readjustment of public opinion respecting school expenditures. Instead of the school institution being looked upon as a sacrosanct, it is now analyzed from a cold, critical, yet sympathetic viewpoint. . . . This has not been accomplished without the most stubborn resistance from organized school men, who however have been forced by public opinion to recognize the fact that the schools must rid themselves of the inflation, duplications, unnecessary activities and other unjustifiable expenditures that are responsible for the present impossible burden. . . . Numerous proposals for school bond issues have come up and have been defeated through concerted action brought about by the organized taxpayers, who have acted in accordance with data furnished them by the research department of the association. Although assessed valuations in all the school districts have been lowered, out of the forty districts only eleven increased their levies slightly, fifteen maintained the same levy, and fourteen actually decreased their levy."

Another illustration which may be cited to help understand the interests of taxpayers' association is the analysis made by the Minneapolis Taxpayers' Association of a proposed tax rate by the board of education in that city. The report reads in part:

"The board of education levy, including the one mill county school tax, is set at 25.33 mills or .13 mills higher than last year. This figure is set by the board of education, and in as much as the board is not under the control of the Board of Estimate and Taxation
and the City Council, but is a law unto itself in this matter, we have little reason to expect anything but the highest levy legally possible. A Supreme Court has ruled that the board can ignore the homestead exemption valuation reduction in figuring its tax rate. We do not approve this method of calculating maximum legal millages, but until the board chooses, to do otherwise the taxpayer must pay the increased rate."

This same organization in its April, 1940 issue devotes its entire remarks to the title "Will They Never Learn." A typical paragraph reads:

"Perhaps Mr. Reed also is cognizant of the fact that a large amount of tax paying property has left Minneapolis because of high taxes. Some industries and businesses have moved out or contracted their tax paying potentialities. Good buildings have been torn down, leaving only parking lots, to the extent that our skyline now assumes a distinctly sawtooth effect, with some of the teeth missing. Home builders are moving to the suburbs."*

According to published literature the National Highway Users Conference was organized in 1932 as a fact-finding, information-giving, and coordinating agency, acting in behalf of the development of highway transportation in the public interest. A statement of objectives and activities, dealing with taxes as stated by the officers in literature sent out concerning the conference seems to be worth quoting. They say:
"1. Establishment of an equitable system of taxation, both with respect to the total cost levied and the distribution of the cost among the different groups involved.

2. Dedication of highway taxes solely to highway purposes.

The activities of the conference have borne fruit. Its views on taxation, diversion, regulation and construction have gained wide public recognition, notably among governmental and research agencies, educators and editors."

It seems significant that the officers of the Conference who made the above statements were Alfred P. Sloan, Jr., Chairman, (Chairman of the Board of General Motors Corporation), Thomas P. Henry, Vice-Chairman (President, American Automobile Association) and L. J. Taber (Master, the National Grange).

In an effort to arrive at a fair evaluation of the taxpayers' association, certain basic questions should be considered. Among some which seem important are:

1. Do taxpayers' associations have any right to control local finance?

2. If so, what fundamental principle of American democracy is involved?

3. Do taxpayers' associations have the same privilege to organize and strike as labor?

Opinions on these and similar questions would probably depend upon the economic status of the taxpayer rendering
the opinion modified some perchance by the individual outlook on government and its functions.

As far as the writer is able to appraise the taxpayers' association by the evidence found in a canvass of literature in the field, the major function—the control of local finance—is subject to question. Duly constituted law and procedure are established for the purpose of controlling local community life including problems of finance. Many of the activities of taxpayers' associations definitely point in one direction—the reduction of expenditures. This is of course, vital to the fiscal administration of public schools. Reduced expenditures for schools usually mean reduced educational advantages with such concomitant problems as fewer teachers, less training, decreased amount of supplies and antiquated equipment. A further ill effect which may result unless offset by an active public relations program, is the general distrust, dissatisfaction and disunity generated in the community.

195:117-13, 159:308, 185:100-112, 27:--, 103:--, 30:--, 143:--, 159:--, 160:--, 186:--, 118:15, 77:--
Question 14:

What importance should public school administrators attach to the apparent extensive influence of taxpayers' associations?

Answer to question 14:

Taxpayers' associations have been more active in some states and areas than in others. This may be noted in one way by the associations which publish materials. The following groups are credited with regular publications:

5. Indiana Taxpayers' Association, Bulletins.
6. Tennessee Taxpayers' Association, Extensive reports.

The Western Taxpayers' Association has been active. The membership includes the following state taxpayers' associations: California, Arizona, New Mexico, Oregon, Utah, Montana, Nevada, Washington and Wyoming.
According to Tide Magazine, September 1, 1938, a group of men were busy in New Jersey throughout the summer setting up the Emergency Consumers' Tax Councils in New Jersey. These Tax Councils have now become formally affiliated with the National Consumers' Tax Commission. This so-called Consumers' Tax Commission claims to have on March, 1939, about 4,000 units operating throughout the whole country. Material issued by the commission includes a monthly bulletin, a series of pamphlets and a study program written for the most part about the subject of hidden taxes. According to the Indiana Taxpayers' Association, there were in 1933, thirty-nine state taxpayers' associations operating in 33 states, while the Tax Policy League had a record of over 1,200 taxpayers' associations in 1939. The extensiveness of the movement to form taxpayers' associations is significant to public school administrators if the objectives of the association include such statements as "organization of taxpayers give them strength to influence and control the financial policies of government."a

Specific illustrations of the apparent seriousness of the influence of the taxpayers' associations may be shown by noting the experiences in Michigan and New York. In 1939 the Michigan legislature cut state aid for education
$5,000,000. The Michigan Public Opinion Survey report shows that sixty-eight per cent of the people did not approve of the reduction. When asked if state aid should be restored even if it meant increased taxes, seventy-six per cent answered yes. Taxpayers' associations are generally credited with influencing this legislation. In New York State there has been a ten per cent cut in state aid. According to A. J. Burke, Secretary of the New York State Teachers' Association, the effects of this reduction in state aid for education are now known. In so far as taxes are concerned he says reports from school districts throughout the state show that the major effects have been these:

1. "In most of the school districts it merely shifted more of the tax burden back to real property taxpayers, the greatest tax increases falling upon property--most in need of tax relief, low valuation property taxed at high rates, in rural counties."

2. "It helped the most able, large taxpayers at the expense of the small taxpayers and home owners, especially those in rural districts."
Burke has courageously named some of the associations which have been active in New York state. They are: Associated Industries of New York, New York State Bureau of Governmental Research, the Savings Banks Associations, the New York State Taxpayers' Federation, Inc., The Real Estate Associations, the American Petroleum Institute, The Westchester Taxpayers' Association, The New York State Economic Council and The Citizens' Public Expenditure Survey Inc., Radio City, New York City. The latter works on a national basis.

To measure the influence of taxpayers' associations accurately would be extremely difficult since it is doubtful if any one factor could be isolated from other factors that make up the total reaction of the taxpayer toward the local taxing units, especially the school. However, much of the literature which is published and disseminated by taxpayers' associations shows evidence of being diametrically opposed to the adequate fiscal administration of public schools. To the degree that this situation exists, the public school administrator is justified in showing concern over the efforts of taxpayers' associations. Where feasible, counteraction may be established through a well planned public relations program. In this connection it is believed to be preferable procedure to
plan for the prevention of tax tensions rather than to emphasize a remedial program.

\[ \text{References: } a \text{ 195:7-18-26-28, 27:0, 105::, 118:15, 30::, 143::, 159::, 163::, 164::, 186::, 185:80-82, 199:421-457.} \]
PART II

THE RELATIONSHIP OF DIFFERENT TYPES OF TAXES TO THE FISCAL ADMINISTRATION OF PUBLIC SCHOOLS
Chapter V

PROPERTY TAXES AND THE FISCAL ADMINISTRATION OF PUBLIC SCHOOLS

Even a brief discussion of property taxes seems to require a statement as to the meaning of the term property. Outside the United States, the term would soon become an abstraction. The statement is made that property is:

"a euphonious collocation of letters which serve as a general term for the miscellany of equities that persons hold in a commonwealth. A coin, a lance, a tapestry, a monastic vow, a yoke of oxen, a female slave, an award of alimony, a homestead, a first mortgage, a railroad system, a preferred list and a right of contract are all to be discovered within the catholic category."

(Hamilton, Walton H., Volume 12, Encyclopedia of the Social Sciences, p. 528) Yet, when property tax is mentioned in the United States, it customarily refers to a tax which is levied on the material goods and privileges of the citizens for the purpose of needed revenue to finance services which are considered essential to the general welfare. It is the purpose of the property tax to reach the income derived by the owner from his possessions. The property is merely the base upon which the assessment is made on the assumption that it represents taxable capacity.

The oldest type of property tax is the land tax which in the agricultural era of this nation probably
rightly represented taxable capacity better than any other available base. With the development of industrialism, property has taken on a broader aspect. The history of attempts to tax the so-called "intangibles" is considered an apt illustration of what is implied. Following in the wake of the industrial era are many problems which now beseech the administrators of property taxes. Among the pressing problems of current times which call for a solution are: Homestead exemptions, rate limitation laws, elimination of the personal property tax, improved appraisal, assessment, and collection techniques, tax delinquency and local autonomy.

The property tax has been subjected to much verbal abuse. No writer has more forcefully condemned the property tax than has Seligman in his statement that

"practically the general property tax, as actually administered today, is beyond all peradventure the worst tax known in the civilized world... It puts a premium on dishonesty and debauches the public conscience. It reduces deception to a system and makes a science of knavery; it presses hardest on those least able to pay, it imposes double taxation on one and grants entire immunity to the next. In short, the general property tax is so flagrantly inequitable that its retention can be explained only through ignorance or inertia..." (Seligman, Edwin R. A. Essays in Taxation, 10th edition, page 62, The Macmillan Company, 1931.)
In contrast, with this point of view, is the position taken by other tax economists when it is recommended "That in most of the local jurisdictions, no drastic decrease be made in the real estate tax." (Committee on Taxation of the Twentieth Century Fund, New York, 1937, p. 432, Facing the Tax Problem.)

Good or bad as the property tax may be, there is ample evidence that the public school administrator will be confronted, at least for some time to come, with the difficulties inherent in the property tax. Attention is focused upon some of these problems in this chapter.
Question 15:

What evidence may be cited to show the importance of property taxes to public school revenue?

Answer to question 15:

The importance of any tax may be considered from many viewpoints. As may be inferred from the question, the importance of the property tax is here considered from the viewpoint of public school fiscal administration. The following data and comments appear significant in evaluating the relative importance of the property tax in financing public schools. According to the statistics prepared by Fredlyn Ramsey and cited in staff study number 4 of the Advisory Committee of Education the distribution of all state and local taxes and appropriations for public elementary and secondary schools in 1935-1936 derived from property taxes was as follows:

The total amount of all property taxes for this purpose equalled $1,363,200,000. Of this amount $1,317,300,000 were derived from local property taxes while $50,400,000 were derived from a state tax on property. The percentage distribution in that report shows that about 73 per cent of all tax revenue for public schools was raised through the general property tax.
These figures are, of course, averages for the entire United States. Great variances exist among the states in the proportion of school revenue derived from the property tax. In Delaware only 8.1 per cent of the public school revenue was obtained through the general property tax in 1936. North Carolina is another state where the percentage of school revenue obtained through property taxes is low. In contrast a number of states (New Jersey, Nebraska, Colorado, Nevada and Oregon) derives most if not all school revenue from a tax on property.

Another source of information which shows the relative importance of the property tax to public school revenue is that provided by the Tax Policy League, Tax Yields for 1939. It is here shown that 35.5 per cent of all state and local revenue raised was obtained from a tax on property. Thus in 1939 the property tax yielded about 4.4 billion dollars of the 12.3 billion dollars of tax receipts in the United States. Of more significance, from the viewpoint of school finance is the fact that 94 per cent of the total local tax collections was obtained through a tax on property and that the amount of the tax is little less than it was a decade ago notwithstanding a flood of new legislation which increased exemptions, restricted levies and created other difficult tax problems for school taxing units.
Other evidence of the importance of property taxes to the fiscal administration of public schools is shown by statistics cited in The Biennial Survey of Education for 1937-38, Bulletin 1940 number 2 chapter III. Here it is stated that a percentage distribution of revenues in 1938 for all city school systems (i.e., those having a population of 2,500 or more) shows that 71.3 per cent came from local sources. It is a matter of some consequence that four years previous to this or in 1934, this percentage was 74.9, a difference of approximately 3 per cent. Statistics from this survey also show that the source of the school dollar in cities of 10,000 population and more in 1938 was derived as follows:

Local taxes for current expense amounted to 63.4 per cent of the total while local taxes for debt service accounted for 9.3 per cent of the total expenditures.

If 94 per cent of the local tax collections is obtained from a tax on property and above 70 per cent of the expenditures for public schools in the United States is derived from local taxes; it is evident that the property tax is vital to the fiscal administration of public schools. In this connection, it should be pointed out that generalizing in conclusions from available data on property taxes
should be conditioned by the variation in importance from time to time and from place to place. The property tax does not seem to be of the same form or of the same weight in any two places.

Question 16:

What is meant by the property tax?

Answer to question 16:

Jens Peter Jensen, of the University of Kansas, noted authority on the property tax is of the opinion that:

"If there were no taxes on intangibles, the present American property tax would be a fairly consistent tax on possessions, regardless of ownership."

This same authority apparently believes that the property tax is essentially a tax on wealth when he says:

"It is, therefore necessary to abandon the notion that property measures individual ability. It is equally necessary to insist that tangible property measures mass ability to pay. A tax levied on this assumption will be of the nature of a fixed charge on wealth, bearing no more relation to the individual's ability to pay than does the interest the owner pays on his indebtedness. Such is essentially, our present tax."¹

Leo Day Woodworth writing for the Tax Study Commission of the State of Michigan states:

"The 'property tax' will be considered in its ordinary sense as a levy on taxable property according to the required percentage of capital value at a rate estimated to meet the uncovered expenditures of the tax district for the tax period."²

Simeon E. Leland, Professor of Government Finance, University of Chicago in making some observations concerning the classified property tax says:

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"The classified property tax developed as one of the important movements for the reformation, or the modification, of the general property tax. The essence of classification is the differentiation in the effective rates of taxation applied to various classes of property. It stands in sharp contrast to the general property tax which attempted to tax all property at a uniform effective rate."

A comprehensive manual for assessors was published in 1939 by the Illinois Tax Commission. Here, the distinction between real estate and personal property is shown by enumerating the items which are taxable under each heading. An example of this enumeration for real estates follows:

1. Land is always real estate.
2. Buildings, structures, improvements, and "other permanent fixtures" are always real estate.
3. Interstate toll bridges are real estate.
4. Trees growing on land are real estate.

The list of items forms a practical basis for understanding the property tax as it is in the state of Illinois. It would appear that this clear enumeration of taxable items would be a benefit in tax collection procedure and to this extent is of significance to school taxing units and the fiscal administration of public schools.
Question 17:

In view of the many defects in the general property tax, should the public school administrator encourage its retention as a major source of school revenue?

Answer to question 17:

There is some evidence which may be cited to show that the property tax is desirable as a source of local revenue. In the opinion of many tax economists, the property tax should be retained as a major source of local revenue. When this question was submitted to 127 leading tax economists in the major educational institutions of the United States, 97 of them gave an affirmative answer.

Jens Peter Jensen believes that it will continue indefinitely as the principal source of local revenue. He offers the following five reasons:

1. Property indicates ability to pay.

2. It is the only tax capable of moderately successful local administration.

3. It meets local fiscal needs better than any other tax.

4. It conforms more readily to the fiscal requirements of the various taxing units.

5. It has stood the test of the depression better than current literature seems to proclaim.
Some of the divergent viewpoints which seem to merit consideration are:

1. Differences in wealth tend to affect the tax rate in different areas. This is clearly shown by Alfred G. Buchler, Associate Professor of Public Finance at the University of Pennsylvania. He states as follows:

"A school tax of $10.00 on every $1,000 of tangible property would produce $58.00 per child in one state and $457 per child in another state. The average cost per pupil attending school in 1930 was $86.69. Thus the burden of supporting schools on a property tax in a rich state is only one-eighth as heavy as it is for a poor state."  

2. Another point of view which is not favorable toward the extended use of the property tax is presented by Clarence Heer. He says:

"There appears to be no place for the property tax in a scheme of ability taxation. This is not to say that the property tax, or at least the tax on real estate, does not supply an appropriate means of financing beneficial local services that increase the value of real property or that save landlords and tenants out-of-pocket expense. Nor does it rule out special taxation of the site value of land. Those particular applications of the property tax, however, find their justification on other grounds than that of ability to pay."
In addition to the arguments for and against the property tax, one other consideration seems to be worthy of notice. W. D. Knott stresses the importance of tax-leeway in his study at Teachers College, Columbia University. He defines tax-leeway as:

"The amount of potential tax revenue in excess of that levied at present, which may be obtained from local resources for all types of local public services. Tax-leeway will express the financial capacity of the community to adapt."\(^2\)

Knott found in his study that:

"Tax-leeway did prognosticate and influence the patterns of educational adaptations. The educational adaptability of the communities was thus dependent on tax-leeway."\(^f\)

Assuming that the arguments for and against the property tax tend to equalize themselves then to the extent that the property tax provides for tax-leeway for school taxing units above that which might be obtained by the use of other types of taxes; public school administrators would appear to be justified in encouraging the retention of the property tax as a major source of revenue for the financial support of the public schools.

Question 18:

How is the incidence of property taxes related to public school administration?

Answer to question 18:

The incidence of any tax which is used to produce school revenue should be of interest to the school administrator who has the total interests of the community in mind. Aside from the social aspects, the incidence of a tax may be considered in judging its relative importance to produce revenue.

According to Heer, the property tax is not closely associated with ability taxation. He states:

"American tax literature of the last 50 years is full of evidence to the effect that the general property tax under modern conditions falls signal short of meeting the requirements of the ability concept. . . . the practical impossibility under present-day conditions of administering the general property tax effectively, the lack of uniformity and precision in assessments, the escape of intangibles and other mobile forms of personal property, and the administrative difficulties connected with the treatment of debts, all operate to make the general property tax both unequal and regressive."

Henry Gunnison Brown, tax economist of the University of Missouri, tersely states that the incidence of the general property tax is a "compound of the incidences
Hugh Dalton, noted British economist claims that "a tax on land is a tax entirely on the owner", while Harold M. Groves, Professor of Economics, University of Wisconsin states:

"One of the frequent arguments for taxing land, especially urban land, is that such taxes are capitalized and tend to make land cheaper, whereas taxes on most other bases tend to be shifted forward to the consumer."  

It appears that since the general property tax is a compounded tax and the analysis of incidence can be made only when the tax has been broken up into its component parts; the incidence of property taxes so far as school taxing units are concerned, depends upon the determination of the application of the property tax in local areas.

The school administrator will probably also be interested in the amount of tax which rests upon real estate. Bushler states that "in 1937 real estate represented 80.1 per cent of the total assessed value on taxable property." If, as the Brookings Institution claims, 42 per cent of the nation's population spend on the average one-third of their income for shelter and home maintenance, the regressiveness of the property tax when applied to residential real estate becomes a problem of vital interest.
to school taxing units. This is noticeably true in those instances where the public schools receive a large percentage of the total property tax revenue as for example in Idaho where in 1939, 53.6 per cent of the total property tax receipts were expended for public schools.\textsuperscript{f}

Question 19:
What are some of the problems inherent in the assessment of property which affect the adequacy of public school revenue?

Answer to question 19:

One of the serious problems in the assessment of property from the viewpoint of providing adequate public school revenue is that of underassessment. According to the National Municipal Review the estimated ratio of assessed value to true value in per cent of 294 cities in the United States with population over 30,000 in 1939, was found to range from 25 per cent in Charleston, South Carolina to 120 per cent in Schenectady, New York.²

A second problem concerns the assessment personnel. Jens Peter Jansen has this to say about the importance of the assessor:

"The American assessor reflects the viewpoint of his community and will temper the tax laws to realize what is wanted or will be tolerated . . . . or he may assess property which the community or some members thereof wish to favor at a differentially low ratio to true value. Indeed, it is certain that vast amounts of taxable personal property go untaxed because it is not the custom to assess it. . . ."³

The important position of land in the tax base gives the assessor a prominent place. In urban communities the importance may vary, but it is substantial everywhere.
For example, land exclusive of improvements bears 45 percent of all property taxes in New York City. In Chicago the comparable percentage is 52. If there were no other difficulties than those associated with the appraisal of land values; the assessor's job would be simple. No two parcels of land are exactly alike. The economic life of land is practically unlimited, land is seldom "produced" so there is no measuring stick to determine costs.

A third problem is the difficulty of establishing taxable value. The assessor must govern his actions by the law, as interpreted by the courts or furnished in opinion by the tax commission or attorney general. The law usually directs that property be assessed at full value. What is taxable value? According to the National Association of Assessment Officers the following situation exists:

"The laws of approximately two-thirds of the states contain some sort of definition of taxable value. These definitions appear in almost as many forms as there are states."

Seven states, California, Idaho, Montana, Nevada, New Hampshire, Utah and Washington define taxable value as the amount at which property would be taken in payment of a just debt due from a solvent debtor. Only one state, Rhode Island includes the willing-buyer, willing-seller formula in its statutes, yet this plan has been popular
with the courts. Some states have laws defining taxable value on forced or auction sale basis. Among these are Arkansas, Connecticut, Kansas, Michigan, Minnesota and Texas. It is apparent that no standard has yet been devised which can be used by assessors to produce equity in the distribution of the property tax. Since the property tax is primarily a local tax, the confusion and dissatisfaction engendered by this lack of equity may be one reason for the unpopularity of the tax with its consequential ineffectiveness.

The informed assessor obtains market value by securing data on (1) offers to sell, (2) offers to buy, and (3) actual transfers. Although an extremely difficult task to secure in some instances, the income method furnished a plan of obtaining market value. Sometimes, tenants furnish a preferable source of securing direct information on past income. The income method is frequently used by private experts in the appraisal field. In the early months of 1941, the Kansas City, Missouri board of education was actively engaged in a controversy involving valuations. The board employed an expert appraiser to check the procedures and accuracy of a tax assessment survey which had been made in that city and which had
been subsidized by the Federal Government. At this writing
the case has not been settled.

A fourth problem, which is being solved, is that
pertaining to a uniform assessment date. The Midwest
Regional Assembly held in Chicago in November, 1938 and
the New England States Conference held in February, 1939
both recommend January, first as a uniform assessment
date. Previous to these recommendations the legislature in
Massachusetts in 1933 changed the assessment date from
April, first to January, first, payments of income taxes
to start in 1934 and for property taxes to start in 1935.
Uniformity of assessment date is related to the efficiency
of property tax collections.

A fifth problem which is sometimes grievous is the
fixing of the taxable situs of property. Tax liability
cannot be determined until a decision has been reached
on the taxable situs. Jens Peter Jensen clearly sums up
this problem by stating:

"The practices in the different states with
reference to the tax liability of different
classes of property may best be discussed in
the light of a general classification of
property. Property is usually classified as
either real or personal. Real property is
taxable only in the tax district in which
it is located. Less uniformly and with in-
creasingly numerous and important exceptions,
personal property is taxable in the district
of the owner's residence."
Improvements in real estate assessment technique would unquestionably increase the adequacy of public school revenue. Walter W. Pollock, President of The Manufactures' Appraisal Company is of the opinion that one solution is to be found in a system of comparative appraisal. He claims that under such a system supervised by expert technicians relativity and proportion between all properties will be produced and furthermore:

"The municipality can collect the taxes needed to pay the cost of government on a basis acknowledged to be fair to all taxpayers. This process of assessment is an approach to the scientific democracy which all good citizens hope for."

No attempt is made to list here all the administrative problems encountered in the assessing of tangible property not to mention intangibles. Among some of the other important problems which have not been mentioned are intra-state cooperation, the problem of assessing the stock of merchants, the problem of assessing household furnishings and the use of the radio in securing better response from taxpayers in meeting their obligations. These and many other problems are in need of solution in order to lighten the burden of property taxes, increase the percentage of collections, and thereby be beneficial in the fiscal administration of public schools.
16-46-48, 109:2-0-10-46, 90:--, 65:12, 139:253, 37:--
172:38, 120:50-53, 54:--, 167:5-6, 77:--, 19:170, 209:4-5,
210:4--
Question 20:

What facts closely associated with the collection of property taxes tend to influence the adequacy of public school revenue?

Answer to question 20:

Among the things which have a noticeable influence on property tax collections and tend to alter the adequacy of public school revenue are the following:

1. Discounts are granted for prompt payment of taxes in many states. According to information compiled by the Ohio State Tax Commission for use in the annual report of 1939, twenty states permit or encourage rewards for prompt payment of taxes. The percentage range is ½ per cent in North Carolina to 12 per cent in Rhode Island. In some states for example, New Jersey, Michigan, Delaware, Connecticut, Maryland and Rhode Island local authorities are given wide powers to establish the rate of discount. In the state of Utah, the law permitting discounts for prompt payment of taxes was repealed, effective in 1936. Other states have definite specified discounts
for prompt payment of taxes. Among these are:
Kansas 2 per cent, Kentucky 2 per cent, Oregon
3 per cent, Washington 3 per cent and West
Virginia 2½ per cent.²

2. Laws which permit tax collection officers to
compromise tax payments do not seem to pro-
mote efficiency in property tax collections.
Marvin E. Johnson, in an unpublished thesis
at the University of Kansas, dealing with
the property tax delinquency states:

"There will, of course, always be
a danger that taxpayers, who are
able to pay and who should pay
the total amount of the tax, will
by means of political pressure be
able to effect compromise with
those who have such power."³

One example, which is typical of many, excepting
for the amount involved, is that written up
by the Associated Press at Leadville, Colorado
on December 9, 1940. Here, a tax claim of
$294,938 is protested for the apparent pur-
pose of compromise since the company is in
good financial condition, having paid 26
million dollars in dividends in the past
six years.⁴

3. Another fact which may be considered as a
negative influence tending to restrict
property tax collections adversely is the political theory which delays progress in tax collection reform. Political theories which emphasize individualism, decentralization and checks and balances may hamper efficient property tax collections. Checks and balances may still be had in many instances in a centralized system of collection but they should come through improved systems of records and accounts rather than duplication of positions and officials.

4. One circumstance which has a positive influence on property tax collections and tends to stabilize the adequacy of public school revenue is the increase in intergovernmental comity. This is especially important in the collection of personal property taxes and in fact, all mobile tangible property.

5. Tax collection reform has been given impetus in some states by provisions for installment payment of taxes, billing taxpayers in advance, and for cer-
tain other prerequisites necessary to make property tax payments less burdensome such as giving information on the costs of various services rendered.

The school superintendent who is studying the problems of tax collections will recognize that the alternative to good tax collections becomes an increased tax levy which in many instances will be impossible because of rate limitation laws.
Question 21:

What items should be included within the scope of a check list for judging the status and efficiency of property tax collection systems in urban areas?

Answer to question 21:

To a considerable degree, the following check list is an adaptation of material contained in a report on Tax Collection Procedure prepared by H. K. Allen for the United States Department of Agriculture. It is proposed that the use of this check list will aid in locating needed reform. To the extent that the defects in the property tax collection system are eliminated, public school revenue from this source will be stabilized. Other uses for this material may occur to the superintendent who wishes to emphasize taxation in connection with the public relations program.
Legislative features:

I. Are tax officials appointed rather than elected? 

II. Is there consolidation of assessments, tax liens and collections under the administration of a county department of finance? 

III. Is there close supervision of local fiscal administration by the appropriate state agency, with powers of reassessment and removal from office? 

IV. Is there rigid adherence to tax collection laws? 

V. Are tax administrators properly bonded to assure compliance of tax laws? 

VI. Do all governmental units have the same fiscal year? 

VII. Does the law provide for the payment of property taxes in installments? 

VIII. Have tax compromise laws been repealed and discounts for prepayment been discontinued? 

IX. Is there both a lump-sum penalty and a moderate rate of interest imposed on the delinquent date upon taxes not paid when due? 

X. Does the county retain a 3-year redemption period for all tax liens on delinquent real estate with penalties and interest thereon? 

XI. Does the law provide for tax-receiver-ship on income producing property having delinquent taxes?
XII. Are tax collectors employed on a yearly basis and paid a specified wage?...

XIII. Do governmental units share equally the burden of tax delinquency?...

XIV. Does the law provide for the county to take immediate control and inventory of tax-title properties?...

XV. Does the law provide for foreclosure proceedings in rem with action against the land rather than the owner?...

XVI. Does the law provide that foreclosure proceedings vest absolute, fee-simple title in the state?...

XVII. Does the law provide for a classification of tax-reverted lands accordingly as they are:
   a. Best suited to private ownership or
   b. Best suited to public ownership?

XVIII. Does the law provide that lands best suited to public ownership be transferred to appropriate public agencies?...

XIX. Does the law provide that tax-titled lands best suited to private ownership be offered at general sale to private buyers for not less than accumulated taxes, interest, and costs?...

XX. Does the law provide for regulation of use and prevention of speculation in tax-title title tracts reconveyed to private ownership?...

XXI. Does the law provide for a one-year limitation during which any action contesting legality of a tax title issued under sales held in former years must be instituted?...
Administrative features:

XXII. Are there modern budgetary practices, uniform accounting systems, and up-to-date auditing and reporting systems? . . . .

XXIII. Is systematic assessing facilitated by accurate and detailed tax maps? . . . .

XXIV. Is there a system of unit valuation for land which includes consideration of such items as corner influence, irregular lots, alley influence, double-frontage and off grade lots? . . . .

XXV. Is there a system of unit valuation for buildings with classification by type—single residence, apartment house and office building; construction—fireproof steel frame, brick, frame? . . . .

XXVI. Are appraisal cards or a loose leaf record system used for collecting data? (Similar to Wisconsin Tax Commission forms). . .

XXVII. Is there a carefully prepared manual for the assessor to use prepared by the chief state administrative tax officer? . . . . . . . . . . . . . . . . . . . . .

XXVIII. Has a concise and easily understood tax policy been formulated? . . . . . . . . . . . . . . . . . . . . .

XXIX. Are tax assessors appointed only on the merits of competitive qualifying examinations? . . . . . . . . . . . . . . . . . . . . .

XXX. Does the assessor hold office during proper performance of duty? . . . . . . .
Property Tax Delinquency

Question 22:

What evidence may be cited to indicate the significance of property tax delinquency to public school administrators?

Answer to question 22:

From the point of view of public school administration, evidence of the significance of delinquent property taxes seems to be centered in the extent and amount of delinquency and in local autonomy.

Since the general property tax is the mainstay of the revenue system of most public school taxing units, it needs to be a reliable tax. The schools are in need of a steady flow of funds if budgets are to be balanced and defensible educational programs are to be made effective. The unreliability of the property tax during the past decade has been disconcerting. In many instances, collections are still in arrears and grievous concomitant problems exist notably those associated with protest payments, abatements, compromise and moritorium laws.

The extent and amount of property tax delinquency which existed during the past decade and which has not entirely disappeared may be indicated by the following facts:
Minnesota: The sixteen northeastern counties (including most of the cut-over land) had an average tax rate in 1930 of 104.24 mills compared with 54.56 mills for the rest of the state. In the sixteen counties, only 45 per cent of the total unplotted land area was paying taxes in 1931.a

Montana: On June 30, 1933, more than one-fifth (23 per cent) of the total taxes levied in 1932 was still unpaid.b

New Mexico: At the present time (1931) there are outstanding approximately $6,000,000 in delinquent taxes in this state. Seventy-five per cent of this amount may never be collected. If tax attorneys can collect $1,500,000 of the total, the State Tax Commission will feel that a fair per cent of collectible delinquencies has been secured.c

Tennessee: A map prepared by the Tennessee State Planning Board shows that in 34 counties, more than 20 per cent of the taxes levied in 1932 was delinquent.d

Wisconsin: Delinquency reached serious proportions in 1933 when delinquent taxes reached
26.6 per cent of the current levies. The city of Milwaukee for a while was forced to issue scrip to meet current expenditures.9

Variations in delinquency for urban areas are given by Frederick L. Bird, Director of Municipal Research, Dun and Bradstreet, Incorporated as a significant characteristic of the unreliability of the property tax. He states:

"Yet here is the situation as it existed in 1938 in 150 cities of over 50,000 population. While the average year end delinquency on the current levy was 10.7 per cent the range was from 1.5 per cent to 35.3 per cent. For 100 of these cities total collections of both current and delinquent taxes averaged 99.3 per cent of the current levy in 1938, but the range was from 80.3 per cent to 121.9 per cent. Again, the accumulation of all delinquent taxes at the close of 1938 averaged 43.1 per cent of a year's levy for 118 of these cities, but the range was from 4.7 per cent to 190.7 per cent.

With respect to long range collectibility taxes levied for the year 1935 in 90 cities remained 3.6 per cent uncollected, on the average, at the close of 1938. However, in ten of these cities less than 1 per cent remained outstanding, while at the other extreme the ratio ran as high as 28.5 per cent."

The South Carolina State Tax Commission report for 1959 says in part:

"During the past year the Tax Commission has been swamped with requests for abatement of delinquent real estate property taxes extending as far back as ten years or more. . . ."

The apparent fact that the property tax is the mainstay of local fiscal autonomy is attested to by Jens P.
Jensen in the Annals of the American Academy of Political and Social Science for 1936. A canvass of the literature on property tax delinquency since 1930 provides evidence that there is a convergency of opinion among tax authorities to the effect that property tax delinquency is definitely related to local fiscal autonomy, home rule and reorganization of local government. It seems that local autonomy presents a realistic issue to school taxing units in years to come.

The breakdown of property taxes in public school support appears to be one major cause which has forced certain changes in the tax structure of many school taxing units. This has been especially true in areas having chronic real estate "blight," widespread "depression" and mass delinquency of property taxes. These conditions are not limited to such economically unsound areas as: the dust bowl in Texas, Oklahoma, Colorado, and Kansas; the drought and famine sections of New Mexico, Arizona, and Nevada; some mountainous areas in the South or the cut-over forest lands in some Northern States. Certain urban areas have real estate "blight" which in many respects are far worse in their social significance than the sparsely settled intra-agricultural territory. Mabel Walker, Director, Tax Institute, University of Pennsylvania says:
"There are some aspects of the situation of the blighted areas, however that are of grave importance from the standpoint of the general mass of citizens as well as of the city treasurer. The first is a disproportionate amount of tax delinquency as compared with other areas. The second is the impairment of taxable values in adjacent property. The third is when per capita costs for police, fire and health protection in a blighted area exceed such costs in an unblighted region in which families of similar economic status are housed. When these conditions prevail, there is a situation of economic drain of abnormal character. There is evidence that these conditions are present in the case of blighted areas of long standing."

Tax delinquency in "blighted" areas, whether urban or rural is a natural economic development, the solution of which is closely associated with local autonomy. Evidence of this is found in tax literature on property tax delinquency in the frequency of the use of such terms as: centralization of functions, danger of pauperization, municipal mendicancy, assigned revenue grants, shared taxes, state grants-in-aid, state subventions, equalization principles and Federal aid.

The National Municipal Review for September, 1933 contains two plans for a model county government. It is shown that there is a correlation between tax delinquency and the problem of reorganization.

Other evidence of the relationship between property tax delinquency and public school administration is to be
found in the various laws which have been enacted reducing the powers, financial and otherwise of boards of education. The states in numerous instances have withdrawn the powers previously extended to school taxing units.

It would appear that the public school superintendent must decide between two beliefs regarding local autonomy. Shall reorganization of local government including school taxing units be developed on Marxian determinism— that there is an inevitable tendency toward centralization and larger administrative units and before which local autonomy will give way. Or shall the Fabian attitude prevail—that change must come slowly and that experimentation and education will assist in the process of change. It is believed that the position held should be declared in the tax policy of the school. The writer is well aware that the present world revolution may alter any plans which otherwise might have existed and that the activities of the Federal Government may be extended into fields of public school interest heretofore not considered. It is conceivable that the public school administrator may be called upon to hasten the process of severing ideas of local self government and community spirit from the extreme doctrine of local autonomy. This responsibility of nationalizing democracy might demand that prevailing plans
of emphasizing local and state allegiance be declimated in favor of a larger domain which for the present decade or longer would probably be the Federal unit.

\[ \frac{a}{19:112-116-165-69}, \frac{b}{17-\overline{a}}, \frac{c}{194:122}, \frac{d}{13::}, \frac{e}{189:254-61, 181:5-6, 205:6-69, 120:73-74, 167:9-11-271-73-321, 73:318-22-326-28-360-434-37, 1::, 2::, 11:126, 31::, 134:469, 199:392-425, 9::, 47::, 60::, 61::, 7::, 4::, 145::, 3::, 42::, 84::, 139:137, 147:48-49, } \]
Question 23:

What are the causes of property tax delinquency which alter the fiscal administration of public school tax revenue?

Answer to question 23:

Much of the literature on tax delinquency deals with the inability-to-pay taxes. An analysis of the factors which cause tax delinquency does not seem to justify the emphasis placed upon the inability-to-pay theory. Fairchild proposes several causes for property tax delinquency, as follows:

1. Faulty collection of taxes.
2. Inadequate penalties.
3. Over assessments.
4. Deflation of value.
5. Laxity of officials.
6. Special assessments.
7. Governmental subdivisions overreaching their functions.
8. Legislative acts granting extensions.

Henry F. Long, chief executive officer in charge of taxation for Massachusetts, believes that tax delinquency is largely a matter of inefficient tax collection. He states:
"No convincing argument can be found for
delinquency in tax collection and if per-
mitted, it becomes a breeder of greater
delinquency and consequent financial em-
barrassment to the municipality."b

Some of the difficulties in property tax collection
may be due to the general problem of surplus of government.
Evidence of this is seen in the multiplicity of taxing
units. The average citizen in the United States is sub-
jected to four or five layers of governmental taxing
jurisdictions. North Dakota, for example, has some 1800
assessment districts with 4,040 tax levying districts,
2,130 of which are school districts. Missouri has 1,299
townships, Illinois 1,325, Michigan 1,376, Ohio 1,400,
Kansas 1,500 and Iowa 1,675. c In many instances in the
Middle West and probably throughout the United States,
school taxing units are carved out to exclude valuable
corporate properties. Many of these units have been or-
ganized for the specific purpose of evading tax rates
and debt limit statutes.

Another factor of property tax delinquency which
changes the fiscal adequacy of many school taxing units
is that of mass delinquency. While short term delin-
quency and delinquency due to individual misfortune or
inability to pay need not attract undue attention of the
public school superintendent; the problem of mass delinquency
is another matter. It is believed that this situation may result from one of three main causes: widespread depression, chronic real estate blight in certain areas, and tax strikes or mass attempts at evasion of tax responsibility. It seems that from the standpoint of adequacy of school tax revenue, there is a distinct difference between the first named cause and the latter. Mass delinquency due to widespread depression or real estate blight has economic connotations while the tax strikes and mass attempts to evade tax responsibility seem to indicate a defective social attitude.

From observations and tabulations made by the writer of the effects of delinquent property tax sales in one county of Kansas during the decade beginning 1930; it was found that in many instances the property offered for sale, by the sheriff according to the laws in that state, was owned by citizens or corporations known in the community to have ample funds to meet other obligations. It was also found that in several instances the evasion of taxes by means of default was considered a matter of good business procedure. An itemized list of 75 properties offered for sale by the sheriff of Montgomery County, Kansas in 1938, shows that in only one case was the property redeemed after the publication of the property for sale and before
the sale began. In six cases the amount of the purchase price was equivalent to the amount of accumulated assessed taxes and penalties while most of the remaining properties were purchased, frequently by the owners, at 50 per cent or less of the amount of accumulated assessed taxes and penalties.

During the depression period from 1930 to 1940 many property owners have asked the question, "Does it pay not to pay taxes?" It is believed that similar evidence to that cited above could be found in many states. Too, legislation supposed to be favorable to the delinquent property taxpayer has been enacted in numerous instances.

It would seem that the causes of property tax delinquency which alter the fiscal administration of public school tax revenue may be many and diverse. The ways in which this change is affected are apparently twofold. First, there has been considerable uncertainty developed because of the "let down" in tax collection laws as exemplified by the additional moritorium law enacted by the Kansas legislature in the early months of 1941. Second, the adequacy of tax revenue for the support of public schools has been materially influenced.
Question 24:

What corrective measures should the public school superintendent approve for solving the problems of property tax delinquency?

Answer to question 24:

Eugene F. Wilkins found in the preparation of his Doctoral Dissertation at Columbia University, New York City on the subject of Public School Tax Management in Texas that the school taxing units of Texas had tried the following plans:

1. Penalties added to the tax if not paid promptly.
2. Care used in making an assessment that creates confidence in the fairness of the tax.
3. A good tax bill.
4. Publicity concerning collecting dates, discounts and penalties.
5. Notification of lien holders that the tax is delinquent.
6. Publication made of the names of delinquent taxpayers.
7. Prompt and certain legal procedures instituted to collect taxes.
8. Installment tax collections.
9. Removal of penalties and interest charges for a fixed period.

10. Discounts given or interest paid for pre-payment of taxes.

11. Campaigns launched by civic bodies for the payment of taxes.

12. Payment made to the collector of a percentage of what he collects to encourage effort on his part.

13. Payment made convenient for the taxpayer by locating the tax office in a very accessible place.

14. Provision made for, and encouragement given to payment of taxes by mail.

15. Insurance companies checked to secure payment of delinquent taxes on property destroyed by fire.

Not all of these plans are of equal merit as may be attested to by Byron O. Beall, former Tax Commissioner of New Mexico. He states:

"Originally the delinquent tax collectors, of which there could be as many as 51, one for each county, were paid on a commission basis. In the richer counties the collectors found rich harvests, some of them making as much as $20,000 in two years. It was found the percentage paid the collectors was really the cream of the col-
The 1929 law places responsibility for collection of delinquent taxes directly with the State Tax Commission. Under our new system, the special tax attorney is given the authority of the delinquent tax collector.

The Committee of the National Tax Association on delinquent taxes offers the following recommendations:

1. One year limit on collections.
2. Appointment instead of election of tax officers.
3. Abolishment of the fee system.
5. No extension of the time limit.
6. Centralization of tax bills.
7. Installment payments.

One other solution has been found for excessive property tax delinquency. In some areas, the Federal Government has undertaken land development and resettlement programs and helped to focus the desirability of reorganization of government in declining rural areas. The Federal defense program may add further impetus to corrective measures in certain other maladjusted and semi-productive areas. Other Federal activity has affected the slum areas in urban districts and Federal aid has influenced school taxing units in various ways. It is believed that the activity of the Federal Government
in extending aid to states and to other taxing units has materially hastened the centralization of authority in the field of taxation.

\[ a \begin{align*} 207:40, \quad 17: &, \quad 167:11-12-33-271-73-321, \quad 134:469, \quad 9: -, \quad 47: -, \quad 199:136-40-431-32-425, \quad 73:307-18-22-28, \quad 141: -, \quad 189:11-15, \quad 120:73-74, \quad 100:6, \quad 76: -, \quad 148:34-35, \quad 96:123-24, \quad 18: -, \quad 138:97, \quad 19:112, \quad 159: -, \quad 154: -, \quad 93:274. \end{align*} \]
Property Tax Exemption

Question 25:

Is property tax exemption a significant current problem from the viewpoint of the fiscal administration of public schools?

Answer to question 25:

It is believed that among the major factors which show the importance of the present status of property tax exemption to the fiscal administration of public schools are the following situations:

First, the magnitude of the amount of property exempted is significant. An examination of the laws of some states gives some idea of this problem. The following states had homestead exemption laws in 1937:

**Alabama**: In Alabama there is a $2,000 homestead exemption.

**Arkansas**: In Arkansas homestead exemption of the first $1,000 from state taxes became effective in 1938.

**Florida**: The first $5,000 of assessed value of homestead is exempt from state and all local taxes except for debt service.
Georgia: Homestead exemption became effective in 1933.

Indiana: In Indiana a home mortgage permits the home owner a $1,000 deduction on his assessed value. An outstanding mortgage may be assumed.

Iowa: The amount of homestead exemption depends on the collection of sales and income taxes. In 1937, $62.50, the maximum exemption was allowed—25 mills on the first $2,500 of assessed value. This was divided among the units of governments in proportion to their tax rates.

Louisiana: The first $1,000 of assessed value of homesteads is exempt from the state; parish and all special district taxes but not the city taxes (except in New Orleans).

Minnesota: In Minnesota urban homesteads are assessed at 25% of true value up to the first $4,000 and 4 per cent of value over $4,000. Beginning in 1933 homesteads were entirely exempt from the state tax except for debt service.
Mississippi: In Mississippi homesteads are exempt from state taxes up to the first $2,500 of assessed value.

Oklahoma: In Oklahoma, homesteads are exempt from state, county and city taxes to the extent of the first $1,000 of assessed value except for debt service for debts incurred previous to the act. (Homestead exemptions removed $122,010,843 of taxable real estate from the rolls in 1933)

Texas: In Texas the first $3,000 of the assessed value of homesteads is exempt from the state tax. The area limit in Texas is 200 acres.

West Virginia: In West Virginia homesteads may not be taxed at a rate in excess of one per cent of assessed value."

Other evidence of the magnitude of the property tax exemption is shown in figures cited for Massachusetts. Here the valuation of tax exempt real estate has increased from $77,239,318 in
1912 to $1,361,683,894 in 1934, and the valuation of tax exempt tangible personal property has increased from $116,935,930 in 1912 to $160,691,250 in 1934. Another example is that of the largest city in the United States, New York City has a total taxable valuation on real estate of approximately $20,659,402,558. Of this sum $4,686,322,604 were exempt in 1934. When it is realized that in most states exemption is extended to property belonging to the United States, the state, municipalities, educational and religious organizations and in some cases to various individuals or groups; the immense sums involved in exemption figures are comprehensible.

A second important phase of property tax exemption is that a great portion of the privately owned exempt property is made up of religious, educational and charitable property. The theory on which exemption is granted to such property is that it serves useful and necessary purposes which if not performed privately would have to be performed by government and that such services
are more valuable than the tax which might be derived from such property. The application of this theory is a meaningful and difficult factor in the solution of tax exemption problems in most states. It is not to be forgotten that improper reduction unfairly increases the tax burden on those who are either unwilling or not in position to demand reductions. The efficient assessor will list exempt property as a precaution against its omission from the tax rolls. In New York State the laws provide that a full report be filed for all exempt property. The chief advantage of listing exempt property regularly each year is that it encourages reexamination of claims of exemption and reveals the extent and growth of exemptions granted. Exemption data should be available so that policies may be formulated on the facts.

Another aspect of property tax exemption which seems significant to the fiscal adequacy of public schools is the effect which the exempted property may
have upon the local tax rate. This problem is especially pertinent since the enactment of numerous tax limitation laws. It is evident that the mad scramble for government buildings among the cities of the United States does not indicate a fear on the part of municipal officials that this type of tax exempt property will have an ill effect on the community. The public school superintendent who is troubled with problems of undervaluation in the school taxing unit may find some interesting data for study in a compilation of property tax exemption facts.
Question 26:

How may the public school superintendent proceed to analyse the facts relative to property tax exemption in the school taxing unit?

Answer to question 26:

Many cases of tax exemption may be considered as forms of subsidy. Whether the subsidy is desirable or undesirable can be answered by making two tests. One, does the subsidy conform to the tax policy of the taxing unit giving the aid and to those receiving it? Two, would the amount in cash be given or received in the same degree?

The following chart has been prepared for the purpose of showing some of the common types of tax exemptions which are considered by the writer as forms of subsidies. It is believed that the public school superintendent in many instances could adapt this chart to local conditions in an effective manner.

**TAX EXEMPTIONS AS SUBSIDIES**

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Nature of Immunity</th>
<th>Institution granting Subsidy</th>
<th>Reason for Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and Local Governments</td>
<td>Tax free securities</td>
<td>Federal Government</td>
<td>a. Supreme court interpretation</td>
</tr>
</tbody>
</table>

b. Intergovernmental agencies
<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Nature of Immunity</th>
<th>Institution Granting Subsidy</th>
<th>Reason for Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Government, state political subdivisions, counties, cities, public schools, etc.</td>
<td>Most all taxes</td>
<td>The states</td>
<td>a. Theory of taxing self</td>
</tr>
<tr>
<td>Publicly owned Utilities</td>
<td>Most all taxes</td>
<td>Local communities</td>
<td>a. Communal subsidization</td>
</tr>
<tr>
<td>Religious, Charitable, and Fraternal Organizations</td>
<td>Most all taxes</td>
<td>Federal State Local</td>
<td>a. Social control b. Economy theory c. Political expediency</td>
</tr>
<tr>
<td>Favored groups—Farmers—Publishers—Mining</td>
<td>Sales taxes</td>
<td>Certain States—Ohio, Michigan, West Virginia, New Mexico, California</td>
<td>a. Pressure group legislation b. Social control</td>
</tr>
<tr>
<td>Widows—Dependents, etc.</td>
<td>Death and Gift Amounts Vary</td>
<td>Federal and State Governments</td>
<td>a. Emotional legislation b. Social control</td>
</tr>
<tr>
<td>Beneficiary</td>
<td>Nature of Immunity</td>
<td>Institution Granting Subsidy</td>
<td>Reason for Subsidy</td>
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</tr>
</tbody>
</table>
| Purchasers of foods, and minimum purchases | Sales taxes | Some states, Ohio-California foods, Kansas under 15¢ purchases | a. Reduce regostivity  
b. Political Expediency  
c. Ease of administration |
| Tramp Industries | Property taxes | States, Local Communities (Especially in South) | a. Bid for residence  
b. Economic competition |
| Individuals and Corporations | Intangible taxes | States | a. Tax justice  
b. Various theories |
| Individuals and Corporations | Property, General, and Personal | Local Assessors | a. Political Expediency  
b. Favoritism  
c. Illegal connivance |

State Supervision of Public School Tax Revenue

Question 27:

What arguments pro and con have been used in some areas to increase state supervision over public school tax revenue?

Answer to question 27:

The National Association of Real Estate Boards has been credited as the leading proponent of tax limitation laws. The literature on tax limitation published by this association recommends:

"Limitations can and should be written into the Constitution of the various states simply: The total of all taxes which shall be levied against real estate in any year by all the taxing authorities of this state shall not exceed 1% of the true value."

Some of the arguments offered in support of overall tax limitation are as follows:

Over-all tax limitation will:

1. Correct the injustice of over-burdened real estate.

2. Force a revamping of the whole fiscal structure of state and local tax systems.

3. Curb effectively waste, inefficiency and extravagance of expenditures.
4. Reduce tax delinquency (estimated to be at one time during the "depression" years 43.7 per cent of all real estate).

5. Discourage borrowing.

6. Improve public credit.

7. Produce equity in assessment.

8. Bring about needed reallocation of administrative and financial responsibility.\(^b\)

The proponents of tax limitation laws point out that according to tax systems of the world the percentage of total tax burden borne by real property in the various countries in 1928 was for the United States 57.5, Germany 23.8, Japan 26.1, Great Britain 19.8, France 11.7, Switzerland 1.5 and Belgium 0.3. Although the property tax in 1939 yielded only about one-third of the total tax receipts, the amount is still excessive and the only way to secure permanent relief is to secure constitutional amendments.\(^c\)

Others who advocate increased state supervision over public school tax revenue have suggested additional measures among which may be listed the following:

1. Tax limitation

2. Debt limitation

3. Budgetary control
4. Establishment of financial standards and adequate dissemination of facts

5. Fiscal dependence

6. Placing minimum rates in equalization funds higher (Example: 15 mills in Oklahoma)

Not all those who believe in increased state supervision over public school revenue demand over-all tax limitation laws. According to Hillhouse and Welch, authors of Tax Limits Appraised, nine states had over-all tax limitation laws in 1937. These states were: Indiana, Michigan, Nevada, New Mexico, Ohio, Oklahoma, Rhode Island, Washington and West Virginia. These authors state:

"By 'over-all' is meant a fixed limit or ceiling on the total taxes which may be levied against a single parcel of real estate by all taxing units within a state."\(^{6}\)

The other types of property tax limits which are better known than over-all limits and which are frequently advocated are:

1. The "jurisdictional" limits, which apply to a particular group of taxing units but do not restrict the total rate of all overlapping districts.

2. The "functional" limits.
3. The "classified" limits which apply to a particular class of property.

4. Special "property tax rate" limits which is limited to particular class of property.  

An analysis of the various state plans for limiting "tax leeway" and extending control over school tax revenue, shows that emphasis has been placed on tax limitation, debt limitation, and budgetary control. Apparently there has been no popular demand to gather and disseminate facts although this point has been frequently mentioned by taxpayers' associations and other groups desiring to establish public good will and confidence. Whether tax limitation laws now in effect are tax relief measures or tax shifting measures is a mooted question. It does appear that the enthusiastic advocates of tax limitation and related laws desire to shift to the state much of the control previously delegated to local taxing units.

Lawrence C. Holmes speaking for the National Association of Real Estate Boards concerning Ohio says:

"When the one per cent limitation was adopted (1934) it meant the assumption of certain school liabilities by the state and it was necessary to establish a school foundation to aid the educational system which was done."  

Some of the arguments which have been offered by the opponents of increased state control over public school
tax revenue may be summed up as follows:

Over-all tax limitation is not desirable because:

1. Drastic reduction in real estate taxes is unwarranted in many instances.
2. Experience has shown that adoption of tax limits has increased the number of regressive taxes.
3. There is no evidence to show that waste and inefficiency have been reduced because of tax limitation.
4. Available data do not show that tax collections have materially improved because of tax limitation laws.
5. There is some evidence to show that local credit has been impaired and a pay-as-you-go policy has not been enhanced.
6. Considerable doubt exists about the feasibility of undermining home rule and destroying local initiative and responsibility concerning school tax revenue.
7. Flexibility to adopt the fiscal system to changing economic conditions is pre-
cluded by constitutional over-all limitation laws.

8. State wide over-all tax limits disregards the differences in local resources and local needs.

Authorities in many instances have voiced disapproval of the movement to extend state control over local taxing units. Some of the comments pertaining to schools show that the immediate effects of tax limitation and related laws have been detrimental to public school welfare. A few representative comments are given.

F. F. Haywood, Professor of Economics, West Virginia University says:

"All told, it might be said that tax limits have failed utterly to improve the assessment of property, real or personal in West Virginia. . . . The public school system still is in the throes of tax limit tangles, and some of the 55 counties are expected to have less than nine-month terms this year, as in the past six years. Needless to say, many of the school buildings have inadequate equipment for modern instruction and parent-teacher organizations are called upon to contribute the most elementary equipment."¹

Harold D. Smith, Secretary of Michigan Municipal League states:

"The impact of the tax limitation amendment upon the schools has probably been
more serious than upon any other unit. . .
It has been necessary to reduce the teaching staffs and shorten the school year, as well as reduce teachers salaries."

Donovan F. Emch, Assistant Professor of Political Science, University of Toledo, Ohio says:

"Probably the most drastic of the operating expedients was the closing of the public schools in Cincinnati in 1937, in Dayton in 1938 and in Toledo in 1939 among others; and the relief shut-downs in Cleveland and Toledo in 1939. Local governments in Ohio today are but humble mendicants seeking succor at the hands of the state. Local government in Ohio is rapidly approaching the condition of Germany's local communities—being areas solely for local administration."

The State Tax Commission of Ohio in the 1939 report admits that

"A substantial part of Ohio's present tax troubles have resulted from constitutional 'tax tinkering.' As an illustration of this situation there is found the present confusion concerning the status of bonds issued by local sub-divisions prior to the enactment of the fifteen and ten mill constitutional amendments."

The Committee on Taxation of the Twentieth Century Fund, Incorporated has this to say about the tax limitation laws:

"The recent property tax limits that have been embodied in some state constitutions, especially limits of the over-all type, seem to us to be ill-advised, particularly from the point of view of tax justice. They have been set so low and made uniform
over so wide an area that they have disrup-
ted long established fiscal relations
between taxpayer and government and be-
tween different units of government.
They have given undeserved bonuses to
some taxpayers, inflicted heavy burdens
on others who have had to supply much
of the replacement revenue, and have
made some localities largely dependent
on the state."

It would appear that the alert superintendent of public
schools should direct his efforts against all attempts to
amend the State Constitution by tax limitation.

The public relations program might profitably em-
phasize the objectional feature of tax limitation, especially
the loss of local control and responsibility of public
school tax revenue.

The public school administrator who wishes to get
other information to show that tax limitation is unde-
sirable may consult some of the following sources:

Donovan F. Ehch of the University of
Toledo has written an article on this subject
for the National Municipal Review, January,
1940.

James W. Martin, Director of Bureau of
Business Research, University of Kentucky has
an article in the September, 1939 number of
the National Municipal Review, entitled Tax
Limitation a Dangerous Device.
The three references (numbers 63, 90, and 189) in the bibliography accompanying this material contain good brief bibliographies on tax limitation.

15-16-221-270, 199:412-433, 67:16-17, 73:469-79, 90: 
Question 28:

What are some of the problems posited by the classification of property for taxation which affect public school finance?

Answer to question 28:

In order to understand the significance of the problems created by the property classification movement, the meaning of the tax and its present status should be made clear. Heer describes the classified property tax as:

"A reform tax through efforts to distinguish between kinds of property and by introducing the principle of differential effective rates."¹

Jens Peter Jensen has a similar point of view. He states:

"Essentially, classification occurs when in the same tax jurisdiction property taxation takes variable percentages of the capital value of the taxable property."²

According to Tax Systems of the world six states, Kentucky, Minnesota, Montana, Ohio, Virginia and West Virginia had comprehensive classified property tax systems as of July 1, 1939.³

Simeon E. Leland who gave more impetus to the property classification movement than any one else says:

"Legal classification, through statutes or constitutional change, has made little progress during the last ten years. Administrative classification seems to have made more rapid advances, but this may be illusory... It appears, too that classification by way of exemption has changed
little. . . . If we look at the progress of the movement for classification it appears that it is now definitely on the wane. It is not a major problem in state and local finance. . . . Classification cannot be considered as a great revenue producer. Where it is advanced it must be because of the justice its application involves."

Albert W. Noonan, Executive Director, National Association of Assessing Officers states that the revenue derived from personal property is significant and cites as evidence the Bureau of the Census figures which show that the total assessed valuation of all property subject to property tax levies during the year 1937 was listed at 139 billion dollars. Of the total, 22 billion or 16 per cent was represented by personal property. Noonan has computed from these figures that the personal property tax in 1938 was approximately 750 million dollars. He asserts:

"At the present time there is a great amount of personal property, tangible and intangible, assessed by state agencies, under many different schemes. Where changes do occur, the trend seems to be still in that direction. . . . Two states, New York and Delaware have already completely abandoned taxes on personal property, and it will occasion no great surprise when other States proceed to do the same. But so long as something like 750 million dollars are involved, this change is not going to take place overnight.""

A canvass of tax literature shows that some of the problems created by the movement to classify property
for the purpose of taxation may be summed up as follows:

1. Divergency of opinions held by authorities in the field of taxation is believed to be responsible for part of the confusion existing in tax collections of property subject to classification. Evidence of this lack of unity may be shown by the replies of tax economists to the following questions included in a questionnaire sent to 127 prominent tax economists in the United States.

   a. "Should the property tax be restricted to reality?"
      67 answered yes
      51 answered no
      9 expressed no opinion

   b. Should improvements be taxed at a lower rate than land?
      70 answered yes
      41 answered no
      16 expressed no opinion

   c. Should the general property tax include intangibles?
      111 answered no. "

2. Widespread dissatisfaction of the attempts to adequately assess tangible personality, particularly household furnishings is be-
lied to be responsible for the trend to exempt much of this property.

3. Lack of standardized classification seems to have added to the complexities of taxing personal property. A few states have attempted to prepare instructions for assessing personal property, but in only one instance is the degree of thoroughness strikingly evident. The Personal Property Manual prepared by the Illinois Tax Commission in 1939 appears to justify such acclaim. (See reference number 68.)

a. Unsolved problems of assessing the stock of merchants is believed to have caused reduced valuation in many local taxing units. According to Noonan, this problem is being partially solved.

He states:

"The problem of assessing the stock of merchants is partially being solved by adopting the average inventory as of the assessment date. Eighteen states now follow this method and it is being advocated in many of the others."
4. Another difficulty which has a negative influence on the adequacy of public school finance is centered in the legislative restrictions governing the assessment of intangibles. For example some states do not permit banks to furnish a list of depositors with the amounts on deposit. However, new theories are apparently being suggested to legislators as evidenced by the recent intangible laws in some states notably, Oklahoma and Michigan.

Robert S. Ford of the University of Michigan found by means of a questionnaire that four general methods are used by 24 states in taxing intangibles, namely the general and special income taxes. In the other 24 states combinations of these methods are used. He says:

"Considerable variation is found in the treatment of various types of intangibles in states which operate under the same general method."\[3\]

5. One other problem which appears to be at least temporarily detrimental to the program of securing adequate funds for public schools
is that created by the trend to exempt all intangibles from taxation. New York and Delaware do not tax tangible personality. The assessor in Cook County Illinois (Chicago) has publicly announced certain limitations of taxable valuations in defiance of law. Roy G. Blakey, of the University of Minnesota says:

"The best thing to do, it would seem, would be to exempt all intangibles from taxation. This would be logical, just and in the interest of ease in tax administration."

6. One condition which has evolved out of the morassic conditions attending the classified property tax movement appears to be beneficial to the school revenue program. The long time tendency of personal property to decline has been halted somewhat by centralization of administration in state agencies, usually the State Tax Commission. Leland states the case clearly when he says:

"Integration of revenues with division of tax receipts to subordinate units has taken the place of classification in popular discussion. This is far more fundamental to the solution of financial problems than classification."
To the degree that local administration of classification laws exist, the school superintendent may profitably assist in the efficiency of tax collection by encouraging the use of manuals similar to the one in Illinois previously mentioned. To the extent centralization of administration of classification laws has developed, the public school superintendent may wish to exert effort to assure an adequate division of the tax receipts for the schools.

Chapter VI

THE SIGNIFICANCE OF COMMODITY TAXES
AS A SOURCE OF PUBLIC SCHOOL REVENUE

Although the general sales tax is considered regressive and is not generally met with approval by tax economists; (cf. with question number 30 in this chapter) it produces an increasing amount of revenue for state and local expenditures in approximately half of the states of the union. Alcoholic beverages are taxed in all the states and 24 states now have tobacco taxes. The same group of tax economists who disapprove of the sales tax give endorsement to a tax on both tobacco and alcoholic beverages. It is probable that the reason for such endorsement lies, in part, in the fact that the general retail sales tax includes among the taxable items, a tax on food and other necessities which even the man on public relief must purchase. The endorsement of the tobacco tax and the liquor tax is supposedly because of their classification as luxuries or the belief that the tax will discourage their use.

The Federal liquor tax is relatively important from the viewpoint of revenue produced, since the yield is approximately 1/10 of the total Federal tax revenues. A similar amount is received from tobacco taxes. (cf. with question No. 1 on sources of Federal Tax revenue)
The Federal Government has no general sales tax at this time.

The revenues received from commodity taxes in the various states differ in amount depending upon several items including population, income, per capita wealth, and especially the rate imposed by the tax. A 3 per cent rate in Illinois naturally produces more money than a 2 per cent rate.

The allocation of the revenue coming from commodity taxes is of immediate vital interest to the schools. To illustrate, the tobacco and liquor taxes in Kansas are credited to the general fund of the state. No disbursements are made from this fund for the expenditures of elementary and secondary schools. In contrast with this, the tobacco and liquor tax revenue receipts in Mississippi (tobacco tax in Mississippi; for the biennium July 1, 1938--June 30, 1940 produced 14 per cent of total revenue for the general fund; beer and wine tax 3.74 per cent) are credited to the general fund but the schools receive disbursements from this fund. (Disbursements from the general fund for common schools during the biennium July 1, 1938--June 30, 1940 were 29.90 per cent of the total.)

The sales tax in Kansas, as it is in most states, where it exists, is an important tax from the standpoint
of revenue receipts. In this state the revenue from this tax is "earmarked." The public elementary schools are allotted $2,500,000 annually. (The equalization principle employed in the distribution has prevented the schools from utilizing the full amount.) In the state of Mississippi, the revenue from the sales tax is credited to the general fund from which the schools receive disbursements noted above. (Sales tax revenues produced 35.36 per cent of total revenues in the general fund for Mississippi for the Biennium July 1, 1938--June 30, 1940.)

Placing in the state general fund all revenue receipts from commodity taxes and making disbursements from this fund constitute a device which frees the recipients from the stigma which may be attached to any one tax source. Citizens who disfavor the use of money which comes from the taxes on liquor or tobacco for public schools could hardly make a case against the plan employed in Mississippi. This plan also has the advantage of stability.

What attitude have school groups taken toward the movement for a tax on commodities? The statement made by Haig and Shoup shows to some extent what attitude was prevalent up to 1934.

"To judge by the public stand taken by statewide educational associations, however, the school group has vigorously supported the
sales tax in Indiana, Michigan, Illinois and North Carolina, and to a certain degree in Ohio. Aside from these and possibly one or two other states, the school group has stood clear of the sales tax contest, officially at least, and in New York one of the teachers' organizations opposed the tax." (Haig, Robert Murray and Shoup, Carl, the Sales Tax in the American States, Columbia University Press, New York, 1934.)

It seems that although the sales tax is classified as a regressive tax, there is more justification for expenditures from this tax for schools than there might be for expenditures for other purposes. It is an obvious fact that a majority of the pupils attending the public elementary and secondary schools in the United States are living in homes which could be classified among those reached by a regressive tax. The majority of these homes receive direct benefit when this tax is employed to finance schools for the education of all the children.

It seems feasible and defensible for the public school administrator earnestly to advocate that if a tax on commodities is necessary it should be administered by the state and credited directly to school taxing units or to the general fund of the state, providing the public schools participate in the disbursements of this fund.

Pertinent questions and answers are included in this chapter on the principal types of commodity taxes.
Question 29:

What are the principal commodity taxes, from the standpoint of revenue produced, which are recognized by tax authorities?

Answer to question 29:

General agreement on what constitutes the principal commodity taxes is evidenced by the writings and statistics furnished by tax authorities. Heer shows in Staff Study Number 4 of the Advisory Committee of Education that the commodity taxes employed for revenue purposes in the United States produced about 11 per cent of the total tax revenue used for the support of the public elementary and secondary schools in 1935-36. Of this amount 7 per cent was derived from the general sales tax, 2.4 per cent from alcoholic beverages, 1.1 per cent from tobacco while other selective sales taxes and severance taxes accounted for the remainder.\(^a\)

In the biennium 1933-40 the general fund tax receipts in Mississippi were divided in part as follows: Sales tax 35.36 per cent; tobacco tax 14 per cent and beer and wine tax 3.74 per cent.\(^b\)

Tax receipts for state and local purposes, by kind of tax, in Ohio for 1937 show that of a total $391,626,225 the retail sales tax produced $49,878,401; alcoholic beverages $25,421,223 and tobacco $7,415,044.\(^c\)
In the state of Michigan for the fiscal year of 1938 the per cent of revenue derived from commodity taxes equalled 22.9 per cent. Of this amount 17.3 per cent came from a tax on retail sales and use and 5.6 per cent from liquor monopoly profits, liquor licenses and alcoholic beverages. The severance tax had a yield for this year in this state of approximately one-half million dollars but is not included in the above percentages.

Yields of Pennsylvania state and local taxes for the fiscal year 1938 show that with the retail sales tax discontinued, liquor and alcoholic beverages provided approximately 6 per cent of the total revenue while tobacco taxes accounted for 1.9 per cent.

In the state of Illinois, the yields of state and local taxes for the fiscal year 1938 show that 16.5 per cent was derived from retail sales and 2.2 per cent from alcoholic beverages.

It seems evident that the principal commodity tax from the standpoint of state and local taxing units is the general sales tax. The taxes derived from alcoholic beverages and tobacco are also important in many instances to state and local taxing jurisdictions, but with these two types of taxes the Federal Government has priority and levies the heavier tax.
\[ \begin{align*}
\text{a} & \quad \text{b} \quad \text{c} \\
1:39, & \quad 104:7, \quad 167:103-143-204-242-395, \quad 5:100-105, \quad 72:10, \\
199:247-331-578, & \quad 67:20-21, \quad 55:516-19, \quad 83:375-94, \quad 32:19, \\
\end{align*} \]
Question 30:
Should public school administrators attach importance to factors other than revenue in commodity taxation?
Answer to question 30:
The meaning of a tax which produces a large percentage of the revenue of a taxing unit seems important.
Denzel C. Cline, Associate Professor of Economics at Michigan State College says:

"Commodity taxation in the United States today consists of a heterogeneous collection of separate imposts. . . . Excises, customs duties and general sales taxes provided 25.1 per cent of all tax revenue (Federal, state, and local) in 1938-39. . . . Excises and the customs were responsible for 34.6 per cent of Federal tax collections in 1939-40."¹

Heer gives a clear definition of commodity taxes.

He states:

"By commodity taxes is meant the Federal custom duties and both Federal and state excise taxes on the production or sale of various commodities or services."²

Paul J. Strayer, Tax economist of Princeton University, defines the sales tax as follows:

"The sales tax is a tax imposed at a flat percentage rate on the sale price of either all commodities or selected commodities."³

Alfred G. Buehler tersely states that:

"A sales tax is a levy imposed upon the sales of commodities or services."⁴
This type of tax is frequently referred to by tax authorities as "hidden taxes" and "consumption taxes."

A second aspect of commodity taxation deals with the justification of the tax. In general tax authorities do not approve of commodity taxation from the viewpoint of equity. Henry F. Long, Commissioner of Corporations and Taxation of the Commonwealth of Massachusetts pointedly discusses this topic. His comments are:

"The general sales tax is unquestionably a producer of substantial revenue, as has been demonstrated in the states where it has been adopted. Theoretically at least, it is still open to a considerable number of states as a new source of revenue. That so lucrative a tax has not been adopted in these states in times when the stress for revenue has been so great, is doubtless in itself evidence that the tax is not one likely to be received with popular favor. In academic circles it is not in the best of repute and its adoption, even as an emergency measure, falls far short of having the unanimous approbation of the learned. It is classed as regressive, and a regressive tax has come to connote something very, very bad."

Herbert D. Simpson, Professor of Public Finance at Northwestern University Chicago, Illinois, is of the opinion that:

"There seems to be a somewhat general apprehension that heavy taxation, especially in the form of consumption taxes may impair our standard of living."  

Buehler concisely explains why the sales tax is not an equitable one, as follows:
"If a sales tax is shifted to consumers, it is regressive in its effects in that it falls most heavily upon the poorest consumers. Farm and labor organizations in Canada, the United States and other countries have uncompromisingly denounced general sales taxes. The poorer classes spend a larger part of their incomes on necessaries and save a smaller part than the wealthier classes. Because gross expenditures are a crude basis of taxation, a sales tax is faulty in its distribution of tax burdens among consumers. It disregards the number of dependents of taxpayers, sources of income, savings from income and methods of spending."\(^2\)

Neil H. Jacoby makes the statement that:

"Statistical surveys indicate that the immediate incidence of sales tax--their direct money burden is preponderantly on consumers of the taxed merchandise."\(^2\)

In an extended study of various state tax systems by the Ohio Tax and Revenue Commission in 1938, it was pointed out that a three per cent sales tax in Illinois could be justified because:

"The proceeds have enabled the state to omit its levy on property in 1933 and in each succeeding year, besides financing the extra relief requirements and have made possible its meeting currently all the liabilities it has assumed for school aid on an enlarged basis, whereas it had formerly been months in arrears on these payments most of the time, when it depended on collections from a state property tax for the purpose."\(^1\)

Taxing officials in Wisconsin have been credited with merit for having designed a carefully planned state tax system. The following remarks indicate the position.
taken on commodity taxation:

"It is significant of Wisconsin's taxation principles that the state has only one type of tax of the consumption group, represented by those on alcoholic beverages . . . . Taxes on alcoholic beverages are less important in the state tax structure than in many other states."

The report of the Committee of the Citizens Fact Finding Movement of Georgia for June 1940 includes these ideas concerning commodity taxation:

"The bulk of the revenue of Georgia comes from sales taxes of one form or another . . . . These taxes are all proportional and they are in effect "regressive." "Regressive" is the opposite of "progressive." The term indicates that the smaller the income of the taxpayer, the greater is the burden of the tax . . . . The upshot of the matter is that taxes in Georgia --and the same is true of most other states --are such that by far the greater burden in proportion to ability rests upon those of weak financial capacity. This is an important consideration for two reasons. One is that it provides a pertinent commentary upon the opinion firmly held by the well-to-do that they pay most of the taxes . . . . The other reason why the regressive nature of our system is an important matter is that we should be very reluctant to impose another tax of this sort, such as a general sales tax."

The specific recommendations of the committee on taxation for the Twentieth Century Fund concerning the sales tax are as follows:

"That, unless urgent considerations concerning the present level of income tax
rates dictate otherwise, the states now imposing a retail sales tax at a rate of 1 per cent or less repeal the tax—in either case the replacement revenue to be obtained from the personal income tax."

A somewhat similar viewpoint, yet with a different concept concerning commodity taxation is presented by Lloyd P. Rice, Professor of Economics at Dartmouth College, Hanover, New Hampshire. Speaking on diversity and justification he says:

"A tax system which is built upon several different pillars or tax bases is preferable to any single tax or to over emphasis on any one tax. . . . A selected group of luxuries or non-essentials may legitimately be taxed, largely on the fiscal ground that they yield a substantial and stable revenue. For nearly a century they have met with popular approval as being "fair enough." In fact, taxes on consumers' luxuries satisfy most of the canons of taxation. They are objected to only on the grounds that they take a larger percentage of the income of persons of small means than of the wealthy, that is, they are regressive. Taken by themselves this is true. However, the objection is invalid provided they are used in conjunction with other taxes in a system which as a whole is progressive."

A third point which the public school administrator interested in commodity taxation might wish to consider is what are the social control influences of commodity taxes. This component of a tax is illuminated during times of national emergency. H. D. Simpson in discussing the social and economic implications of defense
taxation outlines the proper field for consumption taxes.

He comments:

"In the last war we levied terrific consumption taxes in the form of sharply rising costs of living which rested with particular severity upon the poorer classes. We should avoid such a result this time by two methods: first by maintaining stable living costs; and second, by levying at such times and upon such areas of consumption as definitely to promote our specific objectives. The purpose of consumption taxation will be twofold, aside from the consideration of revenue. Its chief purposes: first to divert productive resources from non-essentials to essentials production; and second to exert a restraining influence upon the level of prices. Two types of development, therefore will provide signals for the application of pressure upon the non-essential curve through consumption taxes. One will be the development of shortages of labor, materials or facilities in fields of essential production. The other will be a too sharply rising trend of commodity prices and costs of living. Substantial taxes will help at least toward rectifying both conditions."[2]

It seems then, that public school administrators who analyse and appraise commodity taxes as a source of public school revenue, will wish to include among the factors for consideration in addition to revenue availability, the meaning, equity and social influences of the tax.
Question 31:

What evidence exists to indicate that the sales tax will play an increasingly important role as a revenue producing tax for many taxing units?

Answer to question 31:

Citations from the literature about commodity taxes seemingly offer acceptable evidence to show that revenue raised by this type of tax may be expected to increase in amount during the years to come.

First, the proponents of the sales tax in many instances are organized and energetically working for the sales tax as a replacement tax. Urban real estate interests as represented by building and loan associations, taxpayers' associations, and various real estate boards have been active advocates of the sales tax movement. The Indiana Tax Commission claims that the replacement tax laws enacted in Indiana in 1933 have produced more equity in taxation than was previously known in that state. Further substantiation to the claim that the sales tax is used as a replacement tax may be found in The Kansas Tax Rate Book for 1940 where it is stated that:

"Here again there is good evidence that the school boards are giving the general
property taxpayers substantial relief through the use of the sales tax revenue."

The opponents of the sales tax have been less active in a way that affected legislation for or against the sales tax movement. Practically every tax authority that has expressed his opinions in writing has voiced opposition to this type of tax from the standpoint of justice. In isolated instances, teachers organizations have protested against the use of the sales tax. In other instances such organizations have actively encouraged the enactment of legislation providing for retail sales taxes.

Second, there are certain fiscal developments which tend to hasten the increase of sales tax legislation. In many instances these developments continue to influence economic conditions thereby causing emergency sales tax laws to be reenacted. Among the circumstances found to exist in everyone of the states are one or more of the following:

1. Organization of taxpayers determined to reduce property taxes.
2. Large percentages of delinquency in property taxes.
3. Increased expenditures for schools.
4. Increased expenditures for social security.
5. A decline in yield of other types of taxes.

Third, The Federal Government has taken an increasingly active interest in commodity taxation during the past decade, and many of the states have enacted comprehensive retail sales tax laws. On tobacco and alcoholic beverages, the Federal Government claims priority on the revenue produced. According to Long

"Here if anywhere the Federal Government has the traditional right to the lion's share and there appears to be no indication that it will be relinquished."

Jacoby found in his extensive study of Retail Sales Taxation that the scope of state retail sales taxes in 1937 for 24 states showed that the following numbers of states taxed the items listed:

<table>
<thead>
<tr>
<th>No. of States</th>
<th>Items Taxed</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>essential clothing</td>
</tr>
<tr>
<td>24</td>
<td>all other tangible property</td>
</tr>
<tr>
<td>19</td>
<td>essential food</td>
</tr>
<tr>
<td>19</td>
<td>amusements</td>
</tr>
<tr>
<td>19</td>
<td>telephone and telegraph service</td>
</tr>
<tr>
<td>18</td>
<td>water, gas and electricity</td>
</tr>
<tr>
<td>11</td>
<td>transportation</td>
</tr>
<tr>
<td>9</td>
<td>hotel and lodging service</td>
</tr>
<tr>
<td>6</td>
<td>non-professional service</td>
</tr>
<tr>
<td>5</td>
<td>professional services</td>
</tr>
</tbody>
</table>
It is not reasonable to expect that in times of needed revenue such a lucrative source with such diversity will in many instances be discontinued. But this has happened in a few states, notably Pennsylvania, Idaho and New Jersey. In the latter the retail sales law enacted in 1935 for a period of three years lasted but four months. It seems probable that increased legislation affecting commodities may be anticipated similar to that enacted in 1939 as shown below:

Alabama--the sales tax law was reenacted with reduced exemptions.

Indiana--the sale of alcoholic malt beverages was increased.

North Carolina--a new 3 per cent use tax on tangible personality was added.

North Dakota--the 2 per cent sales tax law was reenacted.

Rhode Island--a new tobacco tax was levied.

Washington--foods, tobacco, and certain amusement were taxed heavier.

Wisconsin--an additional tax on tobacco was added effective on June 30, 1941.

In each of the instances mentioned revenue benefits accrued to public school taxing units.
Fourth, other evidence which seems valid pertaining to increased use of sales taxes is the fact that although tax economists generally do not approve of the taxation of commodities, in some instances the taxation of non-essentials or luxuries is approved. Furthermore, there is a decided convergency of opinion among tax authorities relative to severance taxes. This type of tax has been referred to as an excise tax on the privilege of extracting natural resources. 95 out of 127 tax economists to whom the question was submitted replied that in general there should be a severance tax on such commodities as oil, coal, ore and timber. 8

If, in the years to come, revenue from commodity taxes is likely to increase, it seems that wise school tax policy planning would include stressing every legitimate effort to allocate commodity tax receipts directly to school taxing units or in lieu thereof to deposit them in the state general fund from which the public schools receive appropriate disbursements.

Question 32:

What legislative and administrative features of commodity taxes affect the adequacy of public school revenue?

Answer to question 32:

It is believed that the factors which tend to stabilize or otherwise condition the amount of revenue received by public school taxing units from a tax on commodities may be summarized as follows:

1. Legislation should be designed so that the allocation and disposition of tax receipts are favorable to public schools.

2. Commodity tax rates should not be placed so high that consumption of essentials (food, clothing and shelter) will be unduly restricted, or business enterprise adversely affected. Cline believes:

   "Commodity taxation tends to repress consumption and hence production."[a]

   Jacoby points out in his study that:

   "The major effect of the retail sales taxes as will be shown, is to cause transference of resources as between industries and immediately to entail unemployment assuming other factors remain unchanged."[b]

3. The costs of administration should be held to a minimum, yet provision should be made for ample field auditors and other personnel
needed for completeness of collections. (The administrative burdens of the sales tax are considerable with costs ranging between 5 and 10 per cent of revenue collected.)

4. The evasion and avoidance of commodity taxes are significant administrative problems. Information secured from an inquiry sent by the writer to the chief executive officer in charge of taxation in the various states on February 1941, shows that next to intangible property avoidance and evasion, commodity taxes rank high. Jacoby gives an example of the extent of sales tax evasion. He says:

"A special legislative committee studying the operation of the Ohio sales tax found that in a carefully surveyed sample of 5,000 vendors 10.33 per cent were guilty of irregularities involving evasion. A later check of this sample revealed that this ratio had increased to 25.7 per cent. . . Evasion of retail sales taxes differs as between states, but is probably between 10 and 15 per cent of total legal liability." 

To the extent that, legislation dealing with commodity taxes does not provide for desirable allocation and disposition of tax receipts, general business conditions are adversely affected, administrative costs are
excessive, and evasion and avoidance practices are prevalent, public school taxing units will fail to secure needed revenue from commodity taxes which otherwise would materially bolster a wavering income from property taxes.

Chapter VII

THE IMPORTANCE OF BUSINESS TAXES TO PUBLIC SCHOOL SUPPORT

The principal business tax (aside from the property tax) in many states is based on net income and has been accepted as permanent and desirable. In some states taxes on corporations have come to form an increasingly important source of the state revenue. Frequently the tax is a franchise tax and is levied on domestic corporations for the privilege of exercising their franchise and on foreign corporations for the privilege of doing business in the state. Certain non-profit corporations are usually exempted. In administering the tax, states in most instances rely heavily on tax reports filed with the Federal Government. In some instances states have special taxes on banks, public utilities and unincorporated businesses. In other states where the banks pay no corporate income tax (as in Pennsylvania) they are subject to a capital stock tax. Public utilities are sometimes taxed on gross receipts.

In a capitalistic economy it is not strange to find some capitalists who feel that all taxes tend to be a tax on business. If, as others claim, business taxes are largely shifted, there can be little sympathy expressed for business because of taxes paid. The problem becomes one of equalization and seeing that taxes do not reach the point of diminishing returns. Special taxes imposed on particular industries or forms of business in which
there exists competitive industry may bring about one of two things—increased prices to overcome the increased cost or abandonment of the industry for more lucrative opportunities.

The states have taken the lead in business taxation. They have been handicapped by the interstate commerce restriction and they are limited also by the Federal Government tax on incomes and profits of corporations. Since the advent of the personal income tax in many states, the question has arisen: Is there a need for a corporation income tax when there is a personal income tax? Rice says:

"Business carried on for profit in the United States or in any of its territories and possessions, whether by domestic or by foreign concerns, should be taxed for the benefits which they derive from protection and other government services and because of the costs which they impose on governments for maintaining an environment favorable to the conduct of modern business." (Rice, Lloyd P., The Annals of the American Academy of Political and Social Science, March, 1941, p. 57).

Why should the public school administrator take an active interest in problems of business taxation? In Taxes for Democracy the statement is made that:

"Even if the tax economists believed in setting aside a particular tax for a particular purpose (which he doesn't) he couldn't suggest anything of the type desired. There are no such taxes. If human
ingenuity could devise such imposts they would have been utilized long ago." (Taxes for Democracy, No. 35, March 19, 1941.)

The amount of state aid for public schools has increased in many states. Recent trends seem to be away from "earmarking" specific sums from certain sources. For example, proceeds from all state taxes in Delaware, after July 1, 1941, will be placed in the general fund. This will include corporation franchise tax receipts formerly allocated to the school fund. Similar laws were recently passed in Ohio relative to "earmarked" proceeds from certain taxes. In 1938, the corporation annual privilege tax yielded $5,207,000 in Michigan and was used primarily for school aid. The public service corporation taxes in this state for the same year were $3,563,000 and were allocated in the same manner. If in the years to come many funds now "earmarked" for public school use are transferred to the state general fund, it is probable that the schools will receive disbursements from this source. In such case business taxes will become a part of the total tax system and will be relatively important depending upon the amount of the tax receipts coming from this type of tax and the effects which such taxation produces on the economy of the nation, state or local community.
Question 33:

What pecuniary considerations do business taxes posit for public school finance?

Answer to question 33:

Some of the important questions which are posed by the proposals to tax business for the support of public schools seem to be:

1. How significant are business tax receipts to public school taxing units?
2. Should business be taxed?
3. How should business be taxed?
4. How may the schools participate in business tax receipts?

The prominence of business taxes in the financing of public schools is shown in Staff Study Number 4, The Advisory Committee on Education. Here it is shown that business taxes yielded 7.3 per cent of the total revenue expended for elementary and secondary schools in 1935-36. Of this percentage 2.1 per cent was yielded by corporation taxes and 5.2 per cent by all other business taxes.\(^a\)

The principal arguments in favor of taxing business are:

"1. The tax has a wide spread, all business enterprise contributing in some degree to the expenses of the state."
2. Its yield is consistent from year to year.
3. Collection is certain and comparatively easy.\(^b\)

According to Carl Shoup, noted tax economist of Columbia University:

"General business taxes have been defended on various grounds, one of the soundest of these being ease of collection. \dots\ It is urged that businesses enjoying the protection of a state should pay for it through taxation. This argument involves obviously the benefit theory of taxation, which here as elsewhere suffers from the difficulties encountered in attempts to trace and allocate benefits."\(^c\)

Fairchild is of the opinion that although the states have taken the lead in business taxation, "they have not progressed very far toward a logical and consistent theory of business taxation."\(^d\)

The West Virginia Tax Commission offers some objections to the business tax. The Commission claims that experience shows that:

"1. The tax tends to pyramid, thereby exerting an influence toward higher commodity prices, to the disadvantage of the consumer.

2. It violates the principle of ability to pay oftentimes falling heavily upon a business, which is losing money and becoming in such instances a capital levy.

3. It discriminates in favor of multiple process or integrated industry as compared with the small single-process business."\(^e\)
M. Slade Kendrick, Professor of Economics and Public Finance, Cornell University believes that the fundamental weaknesses of the undistributed profit taxes are:

"1. It limits the possibilities of prompt, and flexible capital developments and handicaps with particular severity a multitude of small and medium sized business enterprises.

2. It is more severe upon newly formed companies and those which are having financial difficulties or who are just recovering from such difficulties."

It may be noted that the authorities in the field of taxation are sharply divided on the justification of business taxes. If it is assumed that a tax on business is justified, then how should this tax be applied? Among the commonest classes of annual taxes in addition to incorporation and entry fees are:

"1. Taxes on bonds and stocks, and on corporate excess (usually taxed as intangibles).

2. Taxes on gross receipts.

3. License taxes.

4. Franchise taxes.

5. Corporate income taxes."

Over half of the states have adopted corporate income taxes with rates averaging around 3 or 4 per cent. A few states have graduated rates. Some of the arguments offered in favor of an income tax on business may be summarized as follows:
1. That an income tax, in this day of scientific accounting, can be estimated with a fair degree of accuracy.

2. That the tax cannot be shifted.

3. That the tax will not be evaded or cannot be evaded by the vast majority of enterprises.

4. That the tax has been increasingly successful wherever tried.

5. That practically all tax experts and administrators are agreed that it must be the next step in the evolution of taxation.

6. That it is the only way to bring order and system and unity in the construction of a tax system which seeks to do justice to the three mainstays of government: reality, personal incomes and business enterprises.

State tax commissions were created in many instances for the purpose of assessing public utilities. Two methods were adopted. One was to tax them on their full property value. The other was to tax their gross earnings or gross receipts. "The majority of the states now measure the tax on their utilities by their total gross or total net income."¹ Revenue received from gross receipt taxes on public utilities is significant. In Illinois for example the gross receipts tax on public utilities yielded $9,069,000 in 1938.

License taxes are sometimes used as a method of taxing corporations though in the main they have been
abandoned in favor of better plans. Franchise taxes form another method of taxing corporations. Clyde L. King, author of Public Finance, University of Pennsylvania states:

"One-fourth of the states call their annual corporate taxes franchise taxes because public utilities were first so taxed. More closely examined, however, they are usually attempts to tax intangibles at the source."¹

According to Roy Blough, Director of Tax Research of the United States Treasury Department:

"The excess profits tax, imposed by the Second Revenue Act of 1940, applies to that portion of the excess profits net income of corporations which exceeds the excess profits credit and a $5,000 specific exemption. . . . Corporations exempt from the income tax and corporations with an excess profits net income not in excess of $5,000 are exempt from the excess profits tax."²

James D. Magee, Author of Taxation and Capital Investments recommends certain modifications of the corporation income tax structure in order to increase flexibility and simplicity. Among some of the suggestions are the following:

"1. Small corporations should be allowed a credit of $3,000.

2. Consolidated returns should be permitted.

3. Capital gains and losses should be disregarded in calculating the tax."¹
Alfred G. Buehler in discussing the topic Paying for Public Education says:

"One who studies business taxation is puzzled by the absence of guiding principles to show just how business should be taxed and how much it should be taxed. . . . A committee of the National Tax Association has recommended that the miscellaneous state and local business taxes should be abandoned for a single tax upon net income at a moderate flat rate."

If it is assumed that business is to be taxed for the support of public schools, and there is convergent opinion to the effect that a corporation income tax is probably the most feasible form of business taxation, what is a good plan for the schools to indorse in securing an adequate portion of the corporation income tax?

The state of Ohio created a school foundation fund in 1935 to replace "earmarked" funds previously designated for the support of public schools. A similar plan was inaugurated in Idaho in 1939. Here, the proceeds of taxes on chain stores, mine production and alcoholic beverages which had formerly been set aside for the public schools were transferred to the general fund of the state. A general fund appropriation replaced the "earmarked" plan. In Delaware, the proceeds from all state taxes, after July 1, 1941 will be placed in the general fund from which appropriations will be made for the support of public
In Michigan a new intangible tax law provides that one-third of all proceeds will be placed in the general fund of the state. The public schools receive appropriations from this fund. In Mississippi a majority of the tax receipts are credited to the general fund of the state from which the public schools receive appropriations.

It would appear that the public school superintendent may profitably endorse a plan for corporation taxes which provides that all revenue receipts be derived from income and be allocated to the general fund of the state from which the public schools receive disbursements. Concomitant problems such as loss of local fiscal autonomy, and adequacy of appropriations are recognized but not discussed here because it is believed that in order to gain certain tax reform measures it may be necessary to make temporary sacrifices.
Question 34:

Is the incidence of business taxes pertinent to public school administration?

Answer to question 34:

A consideration of what is meant by business taxes will supply one reason why a discussion of incidence when applied to business taxes must be specific. According to Alfred G. Buehler, the most important taxes which are levied on business as such, as distinct from taxes merely collected from business, comprise the following:

1. Corporation taxes on capital stock, normal profits, (or net incomes) excess profits, undistributed profits, franchises and corporate excess.

2. Non-corporate taxes on the profits or sale of unincorporated enterprises.

3. Taxes on the production, sale purchase, use or storage of commodities or services.

4. License and occupation taxes on the privilege of conducting a certain enterprise.

5. Payroll taxes

In addition to these, business is subject to property taxes and is asked to collect many taxes from the consumer."

Meex apparently believes that any anxiety concerning the incidence of business taxes should rest primarily with the Federal Government. He states:
"Nearly 90 per cent of the yield of the so-called business taxes is obtained from taxes on corporations. ... The Federal Government secured approximately 25 per cent of its 1936 tax collections from business taxes. ... Corporation income taxes are commonly supposed to fall on the stockholders who have a residual claim on the corporation earnings. State and local governments derived less than 2 per cent of their total revenues from corporation income taxes in 1936. The state and local governments tax insurance and public utilities with some business and occupational licenses all of which are distinctly regressive in their incidence." \(^b\)

Shoup says that present conditions point to an extended use of business taxes. He proposes that:

"Consumers as well as producers benefit from business; whether the burden will be shared fairly by both classes depends upon questions of incidence to which the defenders of the tax have given little consideration." \(^d\)

Rice has tersely summed up the question of incidence of business taxes. He maintains:

"There is little point for example, in passing judgment on the justice or burdensomeness of certain taxes which we collect from business concerns until it is determined whether or not the business men are in a position to shift the taxes which they pay to consumers in the form of higher prices. In so far as taxes which are measured by the volume of business activity are shifted to consumers, the shifted taxes are a burden to consumers and not to business." \(^d\)

A point of view believed to be held by many business men is expressed by Ellsworth C. Alvord, Chairman of the
Committee on Federal Finance of the United States, Chamber of Commerce. He declares:

"No one is qualified or authorized to speak for 'business'. Business is the immediate and practical concern of everyone who works for a living. It is the source of every dollar earned whether by wage earner or by investor. All taxable income, both personal and corporate is derived from business. The load of every dollar spent by government falls upon the shoulders of business." ¹

The incidence of any tax should be of prime interest to the public school superintendent, since it will be found that it will either enhance the objectives of the school or tend to discount the achievement. In considering the incidence of business taxes, it seems that the wise policy includes a measure of caution.

Question 35:

What are some of the problems which tend to affect the relative importance of business tax revenue to public school taxing units?

Answer to question 35:

An analysis of the facts gathered from a canvass made of the literature on business taxes seems to show that from the standpoint of public school fiscal administration several conditions influence the significance of business tax revenue. Among some of the important items are:

1. The amount of Federal revenue obtained from a tax on business precludes state or local efforts for added revenue from this source. Approximately one-fifth of the total Federal taxes in 1940 accrued from the Normal Profits Tax. The Treasury has estimated that the New Excess Profits Tax may supply $522,000,000 in the fiscal year 1942. A

2. The administration of business taxes is confined primarily to the Federal and State Governments. This condition leaves the school taxing unit dependent upon Federal aid and grants-in-aid from the states. While there appears to be a
definite trend in several states toward making appropriations from the state general fund to public school support, the amount in many instances has been less than that previously received from the so-called "earmarking" method of distributing revenue.  

3. There is considerable evidence to indicate that business taxes have been used for social control purposes. Kendrick says:

"It is obvious that the undistributed profits tax impedes to some extent the customary practices of corporate management in providing for their financial needs in large measure by plowing back earnings into business." 

The proponents of this tax on corporations claim that the tax will prevent business cycles, force distribution of income and promote greater justice in taxation. Alvord states:

"The excess profits tax should be confined to its proper functions—an aid in control of inflation and in the prevention of abnormal profits from national defense."

To the extent that the social control influence of business taxes has limited
normal economic conditions, the effect of business taxes on public school finance is vital.

4. The nature and extent of corporations exempt from income tax payment is worthy of mention. According to Robert H. Montgomery, author of Federal Income Tax Handbook, many corporations are exempt from the payment of income taxes. Among some of those listed are: Mutual Savings Banks, Building and Loan Associations, certain Cemetery Associations, Religious Corporations engaging in business and corporations serving exempt corporations. The reasons for granting exemption are usually in order to avoid double taxation, to promote public welfare and to subsidize certain kinds of enterprise. It is believed that a study of corporation exemptions in many school taxing units might provide some interesting contrasts to the objectives of the public schools.

5. The evasion and avoidance of business taxes is believed to be one cause for the wide
spread tendency to discharge tax responsibility with a degree of hesitancy and a measure of distrust. Some of the devices used to divert profit in order to avoid taxes are:

"1. Profit diversion through short sales.
2. Profit diversion through wash sales.
4. Transfer of property.
5. Leasing property.
6. Agreements to divert income.
7. Salary as dividends."

Profit diverting devices are based upon the rightness of tax avoidance. Testimony of this rightness was brought out in the case of Cudahy vs. Wisconsin Tax Commission 1937, 276, N. W., 748.

"Taxpayers may arrange their affairs as to reduce their taxes to the lowest possible point, within the limitations prescribed by valid statutes and regulations, without incurring either moral stigma or legal penalty."

"Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose the pattern which will best pay the treasury."
To the degree that this philosophy has been detrimental to tax collection procedure in general, the fiscal adequacy of public school taxing units has been adversely effected.

6. Finally, it may be mentioned that the rapidity of social and economic changes in Federal-state and local governments tend to require fiscal adjustments which are closely associated with the taxation of business. For example, the tax requirements of the Social Security Act have been extensive. One illustration is the Public Utility Gross Receipts Tax in Illinois which yielded $9,069,000 in 1938 and was expended entirely for emergency relief. In 1938-39 the states and localities spent $543,000,000 on direct relief and $344,000,000 for public assistance. Specific expenditures from Federal funds in 1938-39 for relief and public assistance equalled $2,404,000,000. In addition to competitive groups demanding tax revenue, the national defense program may be expected
to complicate tax collection procedures. On the constructive side is the fact that the national income has been expanding and with fuller employment expected because of the national defense program, state revenue from business taxes may be expected to rise in proportion. Increased state tax collections may be passed on to school taxing units in the form of more generous appropriations from the state general fund.

Personal taxes are usually divided into three groups -- personal income, death taxes, and poll taxes.

In addition to the Federal Government, approximately three-fourths of all the states now have income tax laws. In order of fiscal importance the personal income tax is used most by the Federal Government, less by state governments, and least by local taxing units. This is just the opposite of the fiscal significance attached to the property tax by these three taxing jurisdictions.

The income tax has much to commend it in the tax systems of the Federal and State Governments. The principal features, which are lacking in many other types of taxes, but which are possessed by the personal income tax are flexibility and adaptability. Deductions or credits are controllable. Rates can be adjusted. Another significant feature of the personal income tax is that it is not easily shifted to someone else. While evasion and avoidance have been prevalent in the administration of this tax, there has been enough publicity given to income tax evasion with the resulting penalties imposed by the Federal Government, to deter much of this activity. There is evidence of increased intergovernmental comity in the ad-
ministration of personal taxes which is helpful in the successful collection of this type of tax.

The justice of the progressive surtax has in the past been conditioned by existing exemptions upon certain salaries and upon securities. Recent enactments have removed the exemptions applicable to salaries of Federal and state employees. There is considerable agitation for the removal of the exemptions of Federal-state and local securities. Just what effect this latter suggestion would have in the way of increased interest rates and other fiscal matters has not been fully determined. The great popular acceptance of the income tax has been due to the common belief that income is a good criterion of ability to pay taxes.

A majority of the states, in addition to the Federal Government, impose inheritance taxes. Inheritance, estate, and gift taxes are sometimes known as the "death taxes." The gift tax while not truly a member of this group has been enacted in a few states in order to check avoidance of the death taxes. It has been called a "policeman tax" for this reason. The death taxes are considered justifiable since the wealth involved has been earned by others and in the case of beneficiaries such as widow, son, and daughter, exemptions are usually provided. There is apparent
adaptability in the regulation of the progressive nature of the tax among beneficiaries.

The Federal Government has made use of the crediting device to promote co-ordination between Federal and state tax measures. The Federal Government permits the taxpayer to deduct the taxes paid to the state up to 50 per cent of the Federal tax imposed. Thus any state may levy a death tax up to this level without inflicting a penalty on the taxpayer.

The decline in popularity of the poll tax has been rapid since the adoption of the sixteenth amendment which permitted the taxing of personal income. The revenue received by the states is relatively insignificant. In certain sections in the South it is used for social control measures, being collected only on election years.

It seems logical, to assume that any program designed to raise additional revenue for defense will give consideration to personal taxes.
Question 36:

Do personal taxes account for an appreciable amount of public school support?

Answer to question 36:

The statistics used by Heer in Staff Study Number 4, Advisory Committee of Education show that in 1935-36 personal taxes provided for 4.5 per cent of the total costs of elementary and secondary schools in the United States. Of this percentage 2.3 per cent was derived from personal income taxes while 1.7 per cent came from inheritance, estate, and gift taxes. These figures are for the United States as a whole. In 1937 there was no income tax in 12 states: Florida, Illinois, Indiana, Maine, Nebraska, Nevada, New Jersey, Ohio, Rhode Island, Texas, Washington and Wyoming. In only a few states is the revenue from state income taxes substantial in amount. For example in Alabama the income tax yields 1.5 per cent of total taxes, in Arkansas 1.09 per cent, in Kansas 1.93 per cent, in Oklahoma 5.37 per cent, in South Dakota 0.30 per cent, in Missouri 3.69 per cent, in Massachusetts 6.13 per cent, in Wisconsin 7.69 per cent and in New York 10.83 per cent. The average for all the states on 1936 collections was 3.84 per cent of the total taxes collected.
The combined yield from all types of inheritance, estate, and gift taxes used by the states was in 1938 $145,000,000. Mark C. Mills, Associate Professor of Economics of Indiana University gauges the revenue possibilities of Federal estate and gift taxes by recent yields. He says:

"In the year ending June 30, 1939, the estate tax revenue amounted to $332,279,613.00 and that from the gift tax $28,435,597.00 making a total from the two sources of $360,715,210.00."

A comparison of the amounts of death and gift taxes of the Federal Government and the states shows that death and gift tax revenue is primarily of Federal concern. Since the Federal Government has not yet materially contributed to the direct financial support of public schools, the revenue from death and gift taxes is not of appreciable moment to the fiscal adequacy of public school finance.

The statistics shown for state income taxes indicate that in many instances personal income taxes are not used in any sizeable amount for the support of public schools. It is apparent that the 4.5 per cent of total costs of elementary and secondary schools in the United States credited to income tax revenue by Heer, must rest relatively heavy upon a few areas while in many instances little or no revenue from personal taxes is used to finance elementary and secondary schools.
School revenue from poll taxes is not significant although in a few instances this tax is "earmarked" for public school purposes. For example in Pennsylvania some counties levy poll taxes; the revenue being used to support the public schools.


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Question 37:

What are some of the principal merits of personal taxes in addition to revenue produced which affect the fiscal administration of public schools?

Answer to question 37:

The definition of personal taxes usually carries a connotation of the ability to pay theory which is in accordance with the objectives of public schools in most instances. Heer says:

"It is generally agreed that personal income, gift and death taxes distribute the costs of government more nearly in accordance with the principle of ability to pay than any other types of taxes now in use."  

A committee of the National Tax Association has formulated a definition of the income tax, which has been generally accepted:

"The personal income tax is a tax levied upon persons with respect to their incomes which are taxes not objectively as incomes but as elements of determining the taxable ability of the persons who receive them."  

Elmer D. Fagan, Professor of Economics at Stanford University, says a number of arguments has been advanced for including an income tax into a state tax system:

"1. The income tax reaches a class of taxpayers who would otherwise pay little or nothing to the support of the government."
2. It lends itself to the graduation of rates.

3. With the use of higher rates on the higher incomes, the tendency of the burden of other taxes to bear with undue weight upon the smaller incomes is overcome to a certain extent.

4. The income tax draws upon a surplus fund arising from community earnings which can be diverted to government use with the least sacrifice.\textsuperscript{10}

The principles upon which inheritance tax laws are based provide for meritorious application of taxes. In the first place the tax is upon the transfer of property rather than on the property per se. Secondly, the rates are usually graduated both with respect to the ability to pay and according to the varying strength of the claims of the different classes of heirs.

The incidence of personal taxes should be of interest to public school administrators who study the fiscal administration of schools. Personal income, inheritance, estate and gift taxes are the principal components of the so-called personal taxes. The poll tax is of such minor importance that it is seldom considered when revenue is of vital concern. The outstanding characteristic of the taxes enumerated is that the burden cannot be shifted. Seligman, Editor in Chief of the Encyclopedia of Social Sciences believed that incidence and the ultimate effects
of a tax should not be confused. He summed up his opinion on incidence in a discussion of The Incidence and Effects of the Income Tax by stating, "an income tax is therefore in general not shiftable." Discussing the question upon whom does the inheritance tax ultimately fall he said:

"A tax on inheritance or bequests cannot be shifted for evidently there is no one to whom it could be transferred."

William J. Schultz, author of The Taxation of Inheritance states:

"It (the inheritance tax) reduces shares of the estate received by the beneficiaries and heirs, and it is beyond their power to pass their tax burden to other economic classes."

Harley L. Lutz, Professor of Public Finance, Princeton University says:

"That part (of the Federal tax) which falls on personal income is ordinarily not shifted, unless its application is pushed so far down in the scale of incomes as actually to encroach on the subsistence standard, a condition which does not exist in the United States on account of the liberal deductions allowed."

Another important advantage which personal taxes are believed to possess is discussed by Paul J. Strayer, tax economist of Princeton University, in the Taxation of Small Incomes. He approves of the direct taxation of small incomes as provided in the Revenue Act of 1939:

"It is believed that progression throughout the entire tax structure is desirable, and that the use of the income
tax in the lower brackets is the only way to assure this progression. Equality is considered a goal of importance, and it is believed that the income tax is the best way to be sure that the tax burden should be placed on only income above the margin necessary for subsistence, and that this may be most easily achieved by the use of the income tax with exemption of the size believed to be sufficient. It is concluded therefore, that the use of the income tax on the small income is necessary to attain the goal of an ideal distribution of the tax burden.\(^h\)

It would appear then, that the principal merit of personal taxes, in addition to being good producers of revenue, rests upon three mainstays—ability to pay theory, nonshiftability, and equality of tax burden.

\(^h\)
Question 38:

What advantages do the proponents of personal taxes suggest for the justification of this type of tax?

Answer to question 38:

Tax economists are in almost perfect accord on the question, should there be a graduated personal income tax? Out of 127 replies to this question 126 of the tax experts in the major educational institutions in the United States answered in the affirmative. One was undecided.

Rice is of the opinion that:

"Every citizen of the United States wherever located and every resident alien living in this country should pay a personal income tax to the United States Government because of the manifold benefits which this government confers. The personal income tax levied at progressive rates, is regarded as almost synonymous with "ability to pay". It cannot be shifted to other persons."

Fagan suggests that one or more of the following motives have influenced most income tax legislation:

"1. To tap a new source of revenue.

2. To equalize the burden as between a property-owning class and a non-property owning class, possessing taxpaying ability.

3. To introduce into the tax system a more accurate method of ascertaining ability to pay taxes.

4. To reach intangible property which could not be successfully taxed under existing property tax laws."
5. To introduce conveniently a progressive element of taxation into rates of the tax system.

6. To tax national banks in compliance with section 5219 of the revised statutes of the United States.

7. To reach the income of property which could not be taxed otherwise because impliedly prohibited by the Federal Constitution or expressively forbidden by the Federal law."

Herbert D. Simpson, Professor of Public Finance at Northwestern University, believes that personal taxes are desirable because this type of tax does not interfere with business enterprise. He states:

"The taxes we pay as individuals may necessitate some modifications and adjustments in our mode of living for the time being; but at least they will not interfere with the plans, calculations and policies upon which the uninterrupted prosecution of business and production depends."

Soligan believed that the income tax was valuable as a means of redistributing wealth. He claimed that:

"While the redistribution of wealth must always be a secondary aim compared to the purely fiscal purposes of taxation, progressive income taxes possess the merit of counteracting the tendency toward a greater disparity of wealth. As a means to this end, however, the income tax is inferior to the inheritance tax."

Meer has tersely summed up the merits of the income tax when he says:
"The advantages of income taxation are that income taxes are insulated from costs; they measure ability to pay; are easily calculated; and apportion the tax burden as equitably as any tax ever suggested or tried."²

The fact that over half of the states enacted legislation dealing with personal taxes in the years 1934-38 bears testimony that there is convergency of opinion in general regarding the justification of personal taxes as a constituent of a plural tax system.⁵
Question 39:

How is the adequacy of public school revenue affected by the problems encountered in personal taxation?

Answer to question 39:

An analysis of the problems encountered in personal taxation tends to show that they are closely related to the fiscal adequacy of public school taxing units in several ways. Among some of the more prominent relationships are believed to be:

1. **The Concept of Taxable Income.**

   Irving Fisher, tax economist of Yale University, says:

   "Like many other concepts of general familiarity and fundamental importance in economics, income is still a controversial subject; and the fact that income must be defined for taxation purposes and actually has been so defined in many jurisdictions in a variety of ways does not help matters."

   Seligman held a similar viewpoint relative to the disputed concept of income. He stated:

   "As an economic concept income denotes a flow of wealth during a definite period as opposed to capital as a fund of wealth at a distinct point of time. It may be defined as the money or money's worth which comes in during a definite period over and above the expense of acquisition. The fiscal concept of income, however is still subject to dispute."

   Some of the difficult problems due to the uncertainty of "what is taxable income" centers about capital gains
and losses, and whether to include savings in taxable income. According to the proceedings of the National Tax Association if savings were excluded in the definition of taxable income:

"It would render the personal tax into a tax on expenditure. It would also eliminate the need for a tax on corporations. The vexatious problem of computing capital gains and losses would be solved. No country has adopted the expenditure concept."\(^6\)

Gerhard Colm, principal fiscal analyst in the United States Bureau of the Budget makes the statement that "Reduction in savings by personal taxes are estimated at 1,250 million dollars annually."\(^d\)

Seligman expressed some cogent remarks about including savings in taxable income:

"The concept of income is independent of the use to which it is put. If savings are not taxed as income then the income tax is transformed into a tax on expenditure, which is the least defensible of all the criteria of ability to pay."\(^6\)

In the proceedings of the National Tax Association for 1939 are found these statements:

"Undistributed profits of corporations constitute a significant element in the base of the personal income tax because in the fundamental economic sense, they are savings, and savings form a part of the concept of taxable income that appeals to the conscience of the American people as the best measure of the relative ability to pay taxes."\(^f\)
2. The Subjects of Taxation.

Most income laws in the United States provide for separate returns for husband and wife. The practical importance of this is noticeable under a system of rate graduation. Here the total income may pay a smaller tax if assessment is based on individual liability, than if the whole is subject to a higher graduated rate. Similar to this problem is the confusing one of corporate versus individual liability. The divergencies of opinion on this question may be discerned by observing the difference between Federal and state laws.

3. The Rate and Amount of Taxation.

Acquisition, possession and disposition influence the rate and amount of the income tax. Taxable income acquired through earnings for labor may sometimes be given a different taxable status than the so-called unearned income or income from property.

The principle of progression, meaning that there is graduation of the rate according to the amount of income in possession of the taxpayer, is important to the adequacy of all tax revenue programs which include the income tax as a base. For example in New York State the normal rate ranges from 2 per cent on the first $1,000 of taxable
net income to 7 per cent on amounts over $9,000. In 1938, the yield of the personal income tax in this state was $123,586,000, of which amount $16,400,000 were distributed by the counties to the local communities according to their equalized assessed valuation of real property. There has been some criticism of this type of tax due to the fact that the amounts received annually vary. In 1930 the amount of the distribution noted above was $40,000,000.

Seligman believed that "in the taxation of income the entering wedge of graduation is found in the minimum of subsistence."\(^n\) Paul J. Strayer says:

"It is concluded that the use of the income tax on the small income is necessary to attain the goal of an ideal distribution of the tax burden."\(^{1}\)

Irrespective of the justice of exemption of subsistence income, it is an obvious fact that the taxation of small incomes will produce in most instances, increased revenue. It is the opinion of some tax experts that this plan will stabilize personal income tax receipts thereby eliminating one criticism of this source of revenue for school taxing units.

The disposition of income on the part of the taxpayer may also play an important role in the adequacy of tax revenue. Here again, the idea of what constitutes
basic exemption is of vital importance. It makes a difference who defines the term basic. The laws in some states which use the personal income tax provide for the exemption of dependents. In other cases the taxpayer is permitted to dispose of income for charities, religious contributions and the like without a tax payment on the amount expended.

If, as claimed by some advocates, the broader base produced by lowering exemptions will increase stability of the personal income tax; the public school superintendent may, from the viewpoint of adequacy of revenue, find a measure of satisfaction in this procedure. It seems to the writer that there are social implications in a situation wherein acquisition, possession and disposition of income affect the rate and amount of personal taxation. Furthermore there appears to be a need for collaboration between tax experts and public school leaders to the extent that a concept of tax justice will be formulated for all taxing jurisdictions.


The importance of the administrative practicability of the income tax is definitely related to the adequacy of revenue. It was pointed out in a previous question that one of the chief advantages of the personal income
tax is that it is a personal tax. This fact does not indicate that the tax also has the advantage of simplicity Seligman proposed:

"But precisely because the income tax is a personal tax rather than an impersonal tax or a tax on things, it involves administrative difficulties and presupposes an advanced stage of social morality and political probity."

It is not the purpose here to discuss the problems of administration. It will suffice to recognize that problems of assessment, collection, selection of the tax period, due date of tax, size of administrative area, and many others must be solved by the administrative personnel if the income tax becomes an equitable tax.

The proponents of the income tax do not claim that it is a perfect tax. In the 34 states where income tax laws are now in effect, there exist as many plans for exemption and other administrative features. Since the Federal Government has initiated a program of taxation for small incomes; the states may be expected in some instances to modify administrative practices. For example if exemptions are lowered further, other states may follow the lead of Minnesota and permit the deductions of such items as medical expense for the family. If this or similar allowances are granted, it would result in additional administrative work and expense and consequently less
tax revenue. An increase in deduction opens new avenues of evasion, a problem which faces administrators of personal income taxes to a considerable degree.

One important problem which affects the revenue producing effects in many instances is the intricacies involved in bringing corporate savings to account for personal income tax purposes. According to the proceedings of the National Tax Association for 1939, this major problem involves four minor problems which differ in importance and difficulty of solution. They are:

1. Maintenance of identity of income. (Abolition of tax-exempt securities would simplify this.)
2. Maintenance of equivalence in the rate of tax.
3. Maintenance of equivalence in the size of the base.

Although it is impossible to foresee all of the fiscal implications of inefficient administration of income taxes, it is evident that the productivity of the tax is materially affected by administrative methods and personnel.

5. Evasion and Avoidance.

An evasion of taxes falls within the scope of administrative aspects. However because of the publicity given to income tax evasion some separate attention to
this problem may be justified. Some of the cases which have appeared on the front pages of the daily press do not seem to have been caused by inability to meet tax responsibilities. Rice believes that:

"When taxes increase to the point where they take 20 per cent or more of our national income, certain stresses and inequalities are bound to develop. This puts a premium upon evasion and avoidance." ¹

The problem of evasion and avoidance appears to be especially pertinent at this time because of the Second Revenue Act of 1940 whereby the Federal Government increased the taxation of small incomes. Strayer is of the opinion that this law will increase evasion. He says:

"The administration of the direct tax on small incomes has been found to present some very difficult problems. The assurance that there will not be considerable evasion is more difficult to maintain as the exemptions are lowered and the decision as to what is to be included in the definition of taxable income is found to be complicated by the fact that there would be included in this type of tax a new economic group unlike the present income taxpayers in the way in which their income is obtained." ²

Death taxes do not seem to be subject to extensive evasion practices. Heer mentions several schemes which have been tried:

"1. Fictitious debts created in favor of beneficiaries.

2. Joint estates passing by survivorship."
3. Testamentary trusts.
4. Provision for excessive renumeration to executor beneficiaries.
5. Death bed donations and gifts.¹

M. C. Mills, Associate Professor of Economics at Indiana University says:

"As the law stands, the gift tax with its lower rates makes it possible for those with large fortunes to make gifts while still living and thus escape the high rates of the estate tax with the result that the high rates in the upper brackets are largely meaningless."²

The evasion and avoidance of poll taxes do not seem to be significant from the standpoint of adequacy of revenue. Although 37 states permit a poll tax levy and 10 Southern States require the payment of the poll tax as a prerequisite to the right of suffrage; a canvass of the literature on poll taxes did not in any instance indicate that the revenue from this type of tax was significant. Data compiled from an inquiry sent to the chief executive officer in charge of taxation in each state in 1940-41 show that in a few instances the evasion of poll taxes is extensive. For example in Kentucky and Wyoming it was estimated to be 50 per cent of the total due.
Chapter IX

THE RELATIONSHIP OF HIGHWAY TAXES TO PUBLIC SCHOOL REVENUE

The term "highway taxes" has been employed by many writers in the field of taxation to describe the revenue received from various sources which in the main are used to pay the expenses incurred in the construction and maintenance of highways.

The Federal tax revenue received from gasoline plus that received from excises on lubrication oil, tires and tubes, and automobiles and parts and accessories equalled 96 per cent of the Federal-aid highway expenditures in 1935. (Federal aid for highways, 74 Congress, 2 Session, Senate report number 1976, p. 14). However, over the past decade as a whole, the Federal tax revenue received for highway purposes has fallen short of Federal highway expenditures. The Federal gasoline tax produces more revenue than the other automobile excises combined and since the advent of the increased tax on gasoline the divergency has probably increased. The fiscal significance of the gasoline tax may be gleaned from the following statement:

"The 1940 gasoline tax yielded in the United States is estimated at $1,160,000,000, a 13 per cent increase over 1939. The Federal increase of one-half cent effective July 1, 1940, accounted for 42 per cent of the increased $150,000,000." (New York Times, December 6, 1940).
The state governments are receiving something over 25 per cent of the total tax receipts from the gasoline tax alone. It is claimed that the average motorist pays some 29 cents in taxes out of each $1.00 purchased. Irrespective of the amount, it has not seriously deterred spending for commodities of this nature during the past decade. If the evidence cited above for tax receipts for 1940 are reliable, then the tax on gasoline has not reached the point of diminishing returns.

Why should the public school superintendent have a special interest in highway taxes? There are two reasons. In addition to the theory that all taxes in the last analysis are paid out of wealth or income; there are several states which specifically earmark a percentage of the highway tax revenue for public education. Other states, and the practice seems to be growing in favor, place a percentage of the revenue in the state general fund from which the public schools receive disbursements.

A canvass of the literature on highway taxes produced three divergent points which appear to be pertinent to the school administrator who is interested in tax revenue for school support. First, there is some evidence that increased emphasis will be given to certain highway construction and maintenance programs due to the needs of
the national defense plans. Second, there is apparently a decided opinion existing in many places that highway tax revenue should not be allocated for purposes other than highway construction, maintenance and possibly police protection. Third, there is evidence of a trend to abandon earmarking of funds.

It would seem that if this situation exists, it would be wise tax planning for the school superintendent to work for a state school foundation program which would include in its fiscal state-local relationships an allocation of all highway tax revenue into the state general fund from which the public school fund would receive appropriations.
Question 40:

Are highway taxes fiscally important to public school administration?

Answer to question 40:

In a general way, each tax in a diversified tax system is important to the extent of revenue produced and economic and social effects developed. The general financial aspects of highway taxes may be noted by evaluating the phenomena to follow.

The National Industrial Conference Board Studies in 1937 show that the United States produced 63 per cent of the world output of crude oil. Motor fuel or gasoline ranked first among sources of state revenue in 1937, producing 627 million dollars or 23 per cent of all taxes excluding unemployment compensation.\(^{A}\)

Of direct fiscal importance to public school administrators is the fact that 2.2 per cent of all money expended for elementary and secondary schools in the United States in 1935-36 was derived from the so-called highway taxes. Of this amount 1.9 per cent was provided by a tax on motor fuel—gasoline, while .3 per cent was received from vehicle licenses.\(^{B}\)

Since the tax on motor fuels is new having originated in Oregon in 1919 some experimentation has taken place in
the disposition of the revenue. For example some states have tried out plans of sharing motor fuel tax receipts with the schools. In 1939 Florida with a 7 cent tax allocated 7 1/7 per cent to education; Georgia with a 6 cent tax allocated 16 2/3 per cent to education; Louisiana with a 7 cent tax allocated 7 1/7 per cent to education; and Texas with a 4 cent tax allocated 25 per cent to education. Ohio formerly earmarked proceeds from the liquid fuel tax for the public school funds. Revenue from this source is now placed in the state general fund from which appropriations are made to the state public school fund.

The principles expressed in the Federal statute known as the Hayden-Cartwright Act of 1934 and supplemented by acts of Congress penalize those states which divert highway tax money from highway to other purposes by withholding a portion of Federal aid.

It is probable that highway taxes may be fiscally important to public school administration to the extent that revenue from this type of tax is allocated to the state general fund from which public schools receive appropriations.
Question 41:

What factors should the public school administrator appraise in considering the justification of highway taxes?

Answer to question 41:

The motor vehicle fuel tax produces the bulk of the highway tax revenue. Although in some instances motor vehicle registration fees produce a large source of revenue, in New York State in 1938, the motor fuel tax yield was $67,681,000 compared to a yield of $50,804,000 for motor vehicle registration fees.\(^a\)

The California Tax Research Bureau defines motor vehicle fuel as:

> "Any inflammable liquid, by whatever name such liquid may be known or sold, which is used, or is usable, either alone or when mixed or compounded in operating or propelling motor vehicles."\(^b\)

This broad definition should include diesel fuel which constitutes a new development in the field of motor fuel taxation.

In addition to the facts shown above, it was pointed out in a preceding question that the tax receipts derived from highway taxes were large. Twenty-two years of experience have demonstrated that this type of tax has stability and capacity as a revenue producer.
The gasoline tax has been accepted by the public largely on the basis of the benefit theory of taxation. This may account for the widespread adoption of highway taxes. In some instances, the funds derived from highway taxes have been diverted to purposes other than the construction, maintenance and policing of highways. The purpose in many cases has been emergency relief as in Pennsylvania and New Jersey among others. In 1938 Chicago, Illinois was given special legal permission to use motor fuel tax funds for relief purposes. Chicago is permitted to use one-half of its share for schools. It is believed that the benefit theory is responsible for the convergency of viewpoints which tax economists have on whether it should be mandatory that all proceeds from gasoline and motor vehicle taxes be devoted to highways (including streets and bridges). 81 out of 127 tax experts answered this question in the affirmative in 1936, yet 66 were of the opinion that some highway costs should be paid by levies on property. It is assumed that the latter number believes that highways have inherent benefits for all property. The Federal Government has given support to the benefit theory by withholding aid to states in some instances.

The incidence of the so-called highway taxes should be appraised. Heer claims:
"These taxes are borne either by the automobile owner or by the consumers of commodities and services in the production or distribution of which motor transportation is involved."

Clyde L. King, Professor of Political Science, University of Pennsylvania says of the gasoline tax:

"It bears on all users almost directly as to use."

Apparently it is safe to say that the allocating of funds from the receipts of motor fuels to other uses than highway construction maintenance and policing is a form of shifting to the motorists a tax burden formerly paid by another group of taxpayers. It seems equally plausible to assume that highway taxes are less regressive in nature than retail sales taxes.

The disposition of revenue derived from highway taxes is a factor which the public school administrator should evaluate in considering the justification of adding a highway tax to the Federal and state tax systems. Mention has been made of the tendency to divert funds which term implies that the funds have been collected for a definite purpose. Previous mention has also been made that this special purpose is based upon the benefit theory. What other elements should be considered? According to a summary of School Finance Legislation prepared by the
Research Division of the National Education Association, there are two principal trends in school finance laws passed by the 1939 legislatures. They are:

1. "Increased state support for education."

2. "The diversion of monies formerly earmarked for education to state general funds."

Any tax which is used in lieu of the property tax is fiscally important to public school administrators who must rely upon the revenue received from this type of tax to finance the schools. If it is part of the present economy in fiscal management to allocate most if not all tax receipts to the state general fund; the public school administrator who has tax problems may desire to hasten this evolutionary process when adequate provision has been made for the public schools to share in the disbursements of this fund. The Mississippi State Tax Commission Service Bulletin Number 23, February 1941, shows in a concise manner how this plan works in that state. One of the questions which the Commission uses in giving publicity to this bulletin is, "Are you interested in the cost of education as being the largest general fund expenditure?"
Question 42:

What administrative aspects of highway taxes affect the adequacy of public school revenue?

Answer to question 42:

The methods of disposition of highway tax receipts affect the adequacy of public school revenue in varying degrees. Among some of the important methods are:

1. Direct earmarking of highway tax funds for public school support as tried in Florida, Georgia, Louisiana, Ohio and Texas.

2. Optional use of highway tax funds for school support as permitted in Chicago.

3. Allocation of highway tax funds to the state general fund, from which the public schools receive appropriations.

4. Disposition of highway tax funds for expenditures which otherwise would be paid from a tax on property. (Relief in many instances).

5. Sharing of highway tax funds with local communities and school taxing units—(Example: motor vehicle taxes in Milwaukee, Wisconsin go to school support.)
According to a study of gasoline tax-administration made by the State Tax Commission in New Jersey in 1939, some of the progressive measures in this source of securing revenue were:


2. Holding regional conferences.

3. Development of reciprocity agreements like that existing between New Jersey and Michigan.

4. Development of the principle of uniformity. Thirteen Northeastern States from Maine to Virginia use the same report.

5. Promotion of maximum and minimum bond limitations.

6. Increased cost of collection usually pays more than the costs. (New Jersey increased costs of collection from $11,995.16 to $200,293.97. Additional revenue of $5,000,000 to $6,000,000 is claimed.

7. Refunding method is preferable exemption method. (The change in methods in New Jersey in 1935 netted the state some two million dollars a year additional taxes.)

F. G. Crawford, Professor of Political Science and Dean, College of Liberal Arts, Syracuse University has carried on a more or less continuous study of motor fuel taxation since 1927. In the 1939 production entitled Motor Fuel Taxation in the United States, Crawford considers the
administration of the gasoline tax in the states from several aspects, as follows:

"Personnel, staff, port of entry, legislation, highway patrols, cost of collection, licensing requirements, bonds, allowances to distributors, delinquent taxes, collection of taxes on United States reservations."

The evasion of highway taxes is a significant fiscal problem from the standpoint of adequacy of revenue for all taxing units which depend upon this type of tax for support. Crawford has stated clearly many of the problems connected with the evasion of motor fuel taxes. He lists the causes of evasion as:

1. "Fraudulent refunds and exemptions."
2. Blending.
3. Smuggling.
4. Inadequate administration.
5. Diversion of railroad shipments."

Clyde L. King, when he was Secretary of Revenue for the state of Pennsylvania, stated:

"We found that gasoline bootleggers had robbed Pennsylvania of many millions of dollars in taxes. We found that at least one gallon of gas out of five, and probably one out of four, paid no tax to the state, and the tax went into the bootlegger's pocket. The present Pennsylvania liquid fuel tax was signed May 21 and became effective June 1, 1931. It removed collection of the gasoline tax from the retailer to the distributor. It reduced collection
of the tax from approximately 28,000 retail dealers to the 580 distributors now holding permits to do business in Pennsylvania. We found 7,200 dealers who had not been making any returns at all, or were making fraudulent returns. From February to September of 1931, we collected a total of $918,300 in delinquent taxes alone. For the United States as a whole, about one billion gallons of gasoline out of fifteen billions used have escaped taxes annually. This huge racket can be routed if the states will take rotten politics out of the law enforcement, spend adequate money for auditors, use adequate inspection methods, and collect the tax from distributors."

It is believed that in general tax administrators are reluctant to admit that evasion practices exist during their administration. However, in an inquiry made by the writer and addressed to the chief executive officer in charge of taxation in the various states in 1940-41; it was disclosed that evasion of highway taxes remained a problem in some states.

To the extent that revenue derived from highway taxes is used for the support of public schools or in lieu of taxes upon which the schools depend, the adequacy of public school revenue is affected adversely when administrative practices are inefficient or ineffective.

Chapter X

THE FISCAL SIGNIFICANCE OF OTHER NON-PROPERTY TAXES TO PUBLIC SCHOOL FINANCE

It is not feasible to discuss under this heading all the taxes which could be included, since the terminology provides for a grouping of miscellaneous taxes. Three sources of tax revenue were found to be frequently discussed in the literature on taxation. Much has been written on social security taxation, although numerous writers have qualified their opinions and hedged their estimates as to probable effects of the taxes collected under the provisions of the Social Security Act. Sufficient time has not elapsed since the passage of the act to gain any reliable data upon many phases of the tax program and the probable ultimate results. One generalization may be safely stated which is that the Social Security Act, will probably add materially to the cost of state and local governments as well as to that of the Federal Government. It has been estimated that the payroll taxes put into effect by the social security legislation should yield two and one-half billion dollars annually by 1945; if we assume a normal trend of business development. Any statements of what the probable effects of the national defense will be on this or other tax problems would seem to be premature except to state that it may be expected that certain tensions will arise and that the tax burden will increase.
Special taxes on chain stores are widespread with approximately half the states imposing such a tax. The chain store tax is an illustration of taxation for economic and social control. Although special interest legislation is considered unsound by many tax economists, the United States Supreme Court in Indiana in 1931 decided that the distinction between chain stores and independents is a reasonable basis of classification that justifies the imposition of special taxes on chains.

The revenue from this source of taxation is of minor importance in most states. For example in 1938 the revenue from this tax in Wisconsin was only $50,000 while in the neighboring state of Michigan with a more inclusive law and higher rates the revenue for the same year amounted to $668,000. The revenue from this tax in Michigan formerly was used for school aid but now is deposited in the general fund of the state. Pennsylvania passed a chain store tax law in 1937 with allocation of revenue directed to the state school fund. According to Tax Institute the state legislatures in five states in 1940-41 had the issue of chain store taxes up for consideration. The states mentioned were Arkansas, Maine, Missouri, Tennessee and Washington.

A tax on insurance companies, based upon a levy of one to two per cent rates on premiums received, is common
practice in the United States. A number of states tax foreign companies more heavily than the domestic companies. Insurance taxation has not only been a part of the intense economic rivalry between the states, but, according to the evidence found in a canvass of the literature, the legislation which created insurance taxation must have been motivated by a desire at one time to punish, at another time to subsidize and again to regulate and control. As a whole there is complete lack of uniformity, excepting that the practices of taxing insurance everywhere show some evidence of treatment in a privileged manner. There is apparent agreement, that the insurance tax is eventually paid by the policy holder. Is there less reason to tax a life insurance policy with a sizeable savings account, than to tax any other form of savings? Life insurance companies have apparently profited by the sentiment which has prevented taxing this form of savings on an equal basis with other forms. The tax on insurance companies applies in most cases to all companies excepting non-profit, fraternal benefit societies, cooperatives and sometimes animal insurance companies. Many insurance taxes, especially the Federal tax, are routine revenue taxes which produce relatively little revenue. For example, the yield in Wisconsin in 1933 on insurance taxes exclusive of property taxes was
only $2,005,000. New Jersey had a yield for the same year of $2,747,000. The contrast with this are the exceptions of New York which had a yield in 1937 of $14,491,000 and Illinois with a yield of $8,399,000 in 1938.

In many cases the taxes collected from insurance companies go to the general fund of the state. In Michigan, however, the proceeds of the insurance tax are used primarily for school aid and in Missouri 50 per cent of the funds are shared with the schools. It seems that insurance taxation is overdue for reform. School administrators should keep on the alert for proposed changes in the legislation affecting insurance taxes. Is it not a worthy goal to work for the allocation of any additional insurance tax revenue for public school aid? The other aspect of insurance taxation, that of the confusion of laws and burdens will be forced into consideration when the problem is approached. It should not be neglected by school administrators in the zeal for increased sources of revenue.
Question 43:

How important to public school taxing units are the tax receipts derived from other non-property taxes?

Answer to question 43:

The percentage distribution of the total elementary and secondary school tax burden yielded by other non-property taxes in the United States in 1935-36 was 1.5 per cent.a

In January 1937 there were nine states that earmarked chain store taxes wholly or partly for school support. These states were Alabama, Florida, Idaho, Indiana, Louisiana, Montana, Pennsylvania, Texas and West Virginia.b

The legislatures in two states--Montana and Idaho in 1939 enacted laws which allocated chain store tax receipts to the state general fund.c Similar legislation was enacted in Michigan in 1935.d According to the State Tax Commission there has been a great deal of opposition to the "chain store tax" in Pennsylvania since its inception in 1937.e

In the year's 1937-40 several states have imposed a tax on chain stores and in some instances the revenue has been allocated to the support of schools.

The commonest and most remunerative source of tax revenue derived from insurance companies is shown by Philip L. Gamble who conducted a study for the New York
State Tax Commission on Taxation of Insurance Companies.

He reported that:

"The premium tax is quantitatively the most important of all taxes imposed on the business of insurance. In 1939 the total of premium taxation levied by the state and local government which imposed such taxes) upon the twenty-one largest life insurance companies was $20,212,000. This was 1.6 per cent of their premium income and 72 per cent of all the taxes, exclusive of real estate which they paid. These companies had 56 per cent of the total premium income of all the life insurance companies in the United States and 78 per cent of the assets."

Many of the non-property taxes are levied in the nature of fees and licenses. Often the purpose is to regulate and control. The revenue produced is of relative fiscal insignificance.

In addition to the chain store tax mentioned above is the oleomargarine tax. According to the Tax Institute the revenue from this tax is so small that difficulty is encountered in obtaining data on the yield. The 1939 income for this tax was Colorado, $844; South Dakota, $104; and Oklahoma, $20. The total tax yields for 1939 were $550,908, of which the state of Pennsylvania collected $385,806.

An analysis of the state tax receipts in many states shows evidence of minor miscellaneous taxes, some of which must fail to pay the cost of collection. For example the malt syrup tax in Georgia in 1939-40 yielded $15.45; the
sewing machine tax $1,220; the machinery equipment tax $2,060; the motor carriers mileage tax $2,946.57 while the rolling store tax did somewhat better with a yield of $6,478.60.\h 

It may be assumed that the tax receipts from other non-property taxes are of little fiscal importance to many taxing units. It is probable that the social security taxes are of greater significance although no revenue from this tax is expended for the direct support of public schools.
Question 44:
What data should the public school administrator analyze and appraise in justifying the use of some non-property taxes as a source of school revenue?

Answer to question 44:
Certain facts, generalizations, assumptions and opinions concerning some non-property taxes should be analyzed and appraised by the public school administrator before approving the tax as a source of revenue for school support. Some of the factors which seem important are implied in the following questions which will be considered in the order presented for three selected non-property taxes—social security, chain stores and insurance.

1. What is the meaning of the tax?
2. Upon whom does the tax ultimately rest?
3. What are the economic and social effects of the tax?
4. What methods of allocation and disposition of receipts are used?
5. What is the relative fiscal importance in the tax system?

1. Social Security Taxes
The meaning of social security taxes is stated by James D. Magee as follows:
"The unemployment insurance and old age annuity features of the social security program involve taxes on business enterprise. The tax is levied against all ordinary businesses; but agriculture, domestic service, religious, charitable and educational establishments are excluded. In the case of unemployment insurance any business which employs less than eight persons is excluded; for the old age annuities there is no lower limit."

The committee on taxation of the Twentieth Century Fund reports:

"The payroll taxes form a specialized and crude type of income tax since they are levied on one kind of income wages and salaries--without any deductions."\[a\]

It is the opinion of Harold M. Groves that the payroll tax is a component of the income tax group. He states:

"Moreover, the social security system has set up for us the machinery for collection of income taxes at the source."\[b\]

There appears to be some doubt about the incidence of social security taxes. Paul J. Strayer believes:

"It is impossible to determine the final incidence of these levies, but the presumption is that a part will be shifted to lower income classes in the form of higher prices or lower wages. In either case they will tend to add to the regressivity of the present distribution of the tax burden."\[c\]

Magee holds a similar idea about the shifting of payroll taxes. He says:

"The answer depends upon the degree of elasticity in the demand for the product. In
some instances it might in the long run be fully passed on to consumers in the form of higher prices; in other cases it may mean either a reduction in wages or a decrease in profit margins. . . In periods of depression, little shifting is possible."8

In a table prepared by Mabel Newcomer on Assumptions on Which Tax Burden Estimates are Based; it is shown that the payroll tax (the 1 per cent levied in 1936) is shifted one-third to final consumer; one-third to employee; one-third borne by the taxpayer (or stockholder, for the corporation.)2

The committee report on taxation of the Twentieth Century Fund written by Blough and Newcomer points out the injustice of payroll taxes by stating:

". . . these taxes will weigh more heavily on those with low incomes and will be a comparatively light burden on those with incomes of more than $5,000 a year."2

The economic and social effects of the social security taxes have been the cause of much discussion. Blough and Newcomer say:

"The payroll taxes paid by the employers may put pressure on employers to substitute machinery for direct labor. Industries with a relatively large direct labor cost will be affected more than others."

Colm does not believe that the social security taxes will affect savings substantially. He observes:

"Experience in European countries after the introduction of social security legislation
does not show any decline in the savings of workers."

It is the opinion of Magee that the chief criticism of the social security taxes relates to the accumulation of a huge reserve in connection with old age annuities. He says:

"These accumulations are invested in Federal Government obligations yielding at least 5 per cent return. If outstanding government bond issues do not yield such a rate, special obligations yielding 3 per cent are issued for the purpose. By the end of December 1938 the Government had issued 2 billion of such obligations, and these were turned over to the social security board in lieu of cash collected from the social security taxes."

Since the methods of allocation and the disposition of social security taxes affect public school administration largely to the extent that other tax sources may be adversely altered; it appears that adequate comment may be made by calling attention to the fact that to the degree that social security taxes have indirectly been helpful in achieving school objectives, approval should be given to this type of tax. To the extent, that social security taxes have been responsible for competitive agencies clamoring for revenue which should be allocated to public school taxing units, the proper sphere of security tax revenue should be more fully analyzed and appraised. It does not seem the part of wisdom to permit such analysis and ap-
praisal to rest entirely with those who may not be in accord with the objectives of education, democracy and taxation which are generally approved by public school administrators.

The relative fiscal importance of social security taxes was clearly shown by the calculations presented to Congress by the Chief Executive on January 8, 1941. It is here shown that the estimated total tax receipts for 1942 are $8,791 millions of dollars. Of this amount 725 millions are expected from employment taxes for Federal old-age and survivors’ insurance and 243 millions from other employment taxes. It is believed that social security taxes although not designed to affect public school administration directly may have greater significance over the years to come than some of the types of taxes now so meaningful as a source of revenue for school taxing units.

2. Chain Store Taxes

In the past decade or so, there has been a movement in the United States to institute a tax on chain stores. The committee on terminology of the American Marketing Association defines a chain store as:

"One of a group of retail stores of essentially the same type, centrally owned and with some degree of uniformity of operation."

The Federal Trade Commission defines a chain store system as an:
"Organization owning a controlling interest in two or more establishments which sell substantially similar merchandise at retail."¹

The United States Bureau of Census is more specific in defining the meaning of chain stores.

"A group (of four or more) reasonably similar stores in some kind or field of business under one ownership and management, merchandised wholly or largely from central merchandising headquarters and supplied from one or more distributing warehouses or directly from the manufacturer on orders placed by the central buyers."²

The recommendations of the committee on taxation of the Twentieth Century Fund include a statement which implies that incidence of the chain store tax is divided between the consumers of merchandise and the stockholders. It reads:

"Even existing taxes burden the investors in chains unfairly, and what is more important they tend to raise the cost of living for a large number of people with small incomes who depend on efficient merchandising to get the most for their money."³

The Federal Trade Commission in its final report on the chain store investigation p. 82 Senate Document, Number 4, 74th Congress first session 1935, emphasized that:

"If material aid to the independent merchants and their allied interests is the aim of the chain store tax, the graduated chain store license and sales taxes must be heavy, and if they are heavy they will tend to be shifted to consumers, to the detriment of both the chain stores and their patrons."⁴
A canvass of the literature on chain store taxes showed that in every instance authorities either avoided making a statement on the incidence of chain store taxes or specified that to a degree the tax was paid eventually by the consumers.

It may be said to the credit of the proponents of the chain store tax, that the arguments presented for this type of tax have been aggressively placed before the public for their consideration. The economic and social effects of the tax have been thoroughly discussed. Among some of the charges brought against chain store organizations are payment of low wages, do not carry community costs, evade state taxes, indulge in unfair trade practices, and lower living standards by cheap goods at cheap prices. Clyde L. King gives a list of eight similar arguments and says of them:

"There is no doubt that thousands of independent merchants have been driven out of business by one or more of these methods."2

The recommendations of the committee on taxation of the Twentieth Century Fund include this thought:

"We oppose the use of the taxing system or any other device, to maintain the status quo for the benefit of those who would be injured by the new methods of competition that benefit the public. The chain store taxes seem to have been used largely for this purpose."3
Daniel Bloomfield, author of Chain Stores and Legislation, believes that:

"The conclusion is warranted that the punitive license and sales taxes are seriously inequitable on chain stores if they are not shifted and on consumers if they are. From the standpoint of fiscal theory, both charges are very bad practices."

The economic and social effects of the chain store tax could probably be studied better by first considering some questions similar to those included in a survey of executive opinion on the Problem of Big Business, conducted jointly by the Economic Research Division of the National Conference Board and Fortune Magazine. Here it is shown that opinion on business enterprise varies especially regarding big business.

Convergency of opinion on the problem of large scale enterprise may be summed up as follows:

"Maintenance of free competition is the solution most commonly proposed, but other methods of dealing with the problem are suggested."

The public school administrator who wishes to examine the analysis made of this survey on big business is referred to The National Industrial Conference Board Studies in Enterprise and Social Progress Part VIII, Section B, The Problem of Big Business, 1939. This survey shows that large-scale enterprise and its control are
receiving widespread attention among the business executives of the United States. The adequacy of public school finance seems closely related to this general problem.

The methods of allocation and disposition of chain store tax receipts appear to be especially pertinent. The State Tax Commission of Pennsylvania reports on the chain store tax enacted in 1937 as follows:

"The proceeds go to the state school fund. There is a good deal of opposition to the tax, and filling stations and food chains have obtained injunctions restraining the department from collecting it from them."

Prior to 1935 the tax receipts from the chain store tax in Michigan was allocated to the public school fund. Since this date the proceeds all go into the general fund of the state. In Mississippi, the receipts from the chain store tax are credited to the state general fund from which in the biennium ending June 30, 1940, the common schools received disbursements equalling 29.90 per cent of the total. Chain store tax proceeds in Montana, half of which were formerly placed into the common school equalization fund, are now all credited to the general fund of the state as authorized by legislation enacted in 1939.

It appears that a plausible plan from the viewpoint of public school finance would be to allocate chain store
tax receipts to the state general fund, from which the public schools would receive appropriations.

The relative fiscal importance of chain store taxes may be observed by noting the tax receipts in several states. The annual yield in 1938 was for Alabama, $118,321; Florida, $2,930,058; Idaho, $60,119; Indiana, $563,610; Louisiana, $544,550; and Montana, $168,215.\textsuperscript{W} The chain store tax produced $16,946.13 for the fiscal year ending June 30, 1939 in the State of Mississippi.\textsuperscript{X}

It is apparent that the revenue derived from the chain store tax in the United States is not large. The committee on taxation of the Twentieth Century Fund states:

"The revenue from these taxes, compared with that from other sources, has been of minor importance. To a considerable extent their objective has been frankly, not revenue, but business control."

3. Insurance Taxes

The meaning of an insurance tax has been pointedly examined by Philip L. Gamble in his study of Taxation of Insurance Companies sponsored by the New York State Tax Commission. Here it is said:

"Insurance taxation is not a tax upon losses, or misery or other taxation, but an indirect tax upon income mobilized as savings in the form of capital reserves, and because indirect, not an inhibition upon the community's savings."\textsuperscript{Z}
The committee on taxation of the Twentieth Century Fund describes the insurance tax as:

"A tax on insurance companies levied at rates near 1 per cent or 2 per cent and based on premiums received is common."\[1\]

King is of the opinion that:

"The states will all have such a gross receipts tax in time, though many citizens feel that insurance represents the savings of people and should, therefore, not be taxed at all."\[2\]

A canvass of the literature on insurance taxes shows that there is convergency of opinion among authorities relative to the incidence of insurance taxation. Gamble says:

"The Federal Government levies a tax on investment income on all life insurance companies. The state of Connecticut levies this tax on Mutual Life Insurance Companies. A tax on the investment income of life companies probably falls on the policyholders."\[3\]

It is believed that it may be safely assumed that insurance taxes ultimately rest upon policyholders and in general are to this extent similar to taxes on other forms of investments.

The economic and social effects of insurance taxes appear to include one basic fact that insurance companies are not taxed as heavily as other types of business enterprise. This means that taxation responsibility must rest more heavily on other than policyholders. It may mean
further that lighter taxation has permitted in many instances, enormous sums to be paid out as commissions or salaries to the employees of insurance companies. Also, a study of the dividend record paid to stockholders of insurance companies would probably show that there exist large taxable surpluses in many insurance companies of the United States.

The methods of allocation and disposition of insurance taxes are significant to public school taxing units. It seems that with insurance taxes more than elsewhere there is opportunity for new legislation. If so, the public school administrator should be alert to see that tax receipts from this source are allocated to funds from which the public schools receive disbursements. In a report prepared for The Citizens Fact Finding Movement of Georgia in June, 1940, some possible changes in the revenue system of that state are proposed. One of the eight proposals offered is to increase insurance taxes.

In Mississippi, insurance taxes and fees produced 4.49 per cent of the total funds received in the state general fund for the biennium 1938-40. Expenditures out of this fund for this same period amount to 29.9 per cent for the common schools of the state. In Michigan the proceeds (1933 yield $3,913,000) of the gross premiums tax, go to
the state and are used primarily for school aid.\textsuperscript{31} Proceeds from the gross premiums tax in California are placed to the credit of the general revenue of the state upon which the schools have a prior claim. Similar plans for allocation and disposition although minus the priority claim in most cases exist in Maryland, New Hampshire, New York, Tennessee, Texas and Vermont.\textsuperscript{31}

The relative fiscal importance of insurance taxes in the tax systems may be evaluated by appraising some of the following facts and comments. Gamble is of the opinion that insurance companies do not carry their just tax load. He points out that:

"In 1930 the tax of insurance companies to all government agencies was only 3.8 mills per dollar when expressed in relation to the value of their property while there was imposition of 21 mills per dollar on real property. This means that the owner of real estate paid something like seven times as much tax as the citizen who owned policies of insurance companies."\textsuperscript{51}

Tax collections in the following states derived from insurance taxation show the relative fiscal significance of this type of tax. In 1937 in Ohio a tax on premiums on foreign insurance equalled $5,997,704. Total tax receipts for state and local purposes during this same time were $391,626,225. The yield of insurance taxes in Illinois in 1938 was $8,999,000. The 1937 yield in New York was $14,491,000. The 1938 yield for Wisconsin was $2,005,000.\textsuperscript{51}
Out of a total income from taxes in Georgia in 1939-40 of $43,775,316, the taxes on insurance equalled $1,113,769.42. The 1939 insurance tax collections were in North Carolina, $1,574,000; in Tennessee $1,562,000; and in Virginia $1,665,-

The evidence seems to show that insurance taxes are fiscally important in a few states, while in other states they are of relative minor significance compared to other taxes paid by big business and by owners of real property.
This does not purport to be an exhaustive bibliography on taxation. The literature on the subject is so voluminous that only a limited number of the references pertinent to each question could be included. In addition to the extensive bibliographies referred to in question 5, references number 73 and 146 contain extended bibliographies.

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A HANDBOOK ON TAXATION
FOR
PUBLIC SCHOOL ADMINISTRATORS
(ABSTRACT)

Purpose and Need

This handbook brings together in question and answer form some pertinent material about taxes and taxation for the public school administrator. The facts, principles, practices, and social implications of taxes and taxation are presented to help school administrators focus attention upon some of the problems that are inherent in the field of taxation.

Method of Procedure

The procedures followed in preparing this material were as follows:

1. A preliminary analysis was made of the literature on taxation which was available in the University of Kansas Library.

2. Based upon the findings of this analysis, a thorough canvass was made of the literature on taxes and taxation which was available at the University of Kansas Library. The purpose of this canvass was to identify questions and problems postulated by tax authorities.
3. General inquiries on taxation were sent to ten national organizations, 48 chief executive officers in charge of taxation in the states, and to several tax economists and superintendents of schools.

4. Numerous personal conferences were held with tax experts and students for the purpose of gaining information with which to judge the validity of other data.

5. Questions and answers were selected as a feasible means of showing the convergencies and divergencies of opinions on problems posed by tax authorities and which appeared to be meaningful in public school administration.

6. Three general assumptions were made:
   a. Taxation is a field for inquiry and study which can be understood best when considered as an entity.
   b. Authorities in the field of taxation have not generally adhered to the treatment of taxation as an entity.
   c. The convergencies of opinions found among tax authorities may be considered from a given point of reference.
7. The mechanical aspects of organization may be stated briefly. The material is divided into two parts. The fourteen questions answered under the four chapter headings in part one deal with the general tax problems in which the public schools find a setting. The thirty questions formulated in the six chapters in part two focus attention upon the types of taxes from which the public schools receive resources.

General Tax Problems Affecting Public School Administration

The Federal tax program seems to have connotations for the fiscal administration of public schools. The Constitution provides for a general tax pattern for the Federal Government. Congress is not limited in the choice of taxable objects except that the Constitution forbids duties on exports. However, rules are established in the Constitution for governing the taxing and spending powers of the Federal Government. Less regulation exists for the borrowing powers.

The priority which the Federal Government possesses in the field of taxation is pertinent to public school taxing units for several reasons among which are these:
(1) The Federal Government does not contribute to the direct support of the public schools; (2) In times of fiscal urgency the Federal Government may find it expedient to exercise its priority claims to several types of taxes which are employed by both state and local taxing units; (3) Since the authority granted to school taxing units is delegated from the state, the schools are directly affected by conflicts which inevitably develop when two sovereign governments employ the same tax base and compete for tax revenue.

Although the fiscal welfare of the public schools is closely associated with that of the local community and the state, it seems that the public school administrator may well temper his judgement on the Federal tax program by considering such questions as the following:

1. Will the Federal Government increase Federal aid to the public schools?
2. Are the public schools destined to come under more direct Federal control?
3. Are the public schools strategically equipped to assist with problems of taxation which are beneficial to the general welfare?

Intergovernmental tax relations may be significant to public school administration. Although the Federal Government does not levy a tax on general property such
as real estate which is the financial mainstay of many school taxing jurisdictions, there are other problems such as exemptions, priorities, immunity, crediting devices, and intergovernmental comity which affect the productivity and completeness of tax collections in other types of taxes. Many tax tensions could apparently be minimized by increased coordination.

The priority which is possessed by the Federal Government in most all types of taxes tends to place the major responsibility for initiating coordination, thereby sustaining the general welfare, upon this level of government.

The writer has proposed that one method in which coordination in Federal-state-local tax relations may be increased and needed reform in taxation procedures might be hastened is to have each taxing unit develop a tax policy patterned after the Federal tax policy. Local and state tax policies should be stated concisely and be listed numerically under as many items as seems feasible. Such state and local tax policies should not only follow the master design formulated by the Federal Government, but should supplement and enhance its provisions.

Taxpayers' associations appear to be playing an important role in matters pertaining to taxes and taxation. In many instances it seems that misunderstandings have developed between taxpayers' associations and the proponents of public schools.
The controversies which have arisen in some cases have been harmful to the schools. To the extent, that public school administrators are able to assist in relieving tax tensions in local communities, many of the serious aspects of these controversies will tend to disappear. It is suggested that one way in which a better relationship may be developed between the proponents of public schools and taxpayers' associations is to have members of the school personnel take an active part in local taxpayers' associations as a part of the planned public relations program.

The Significance of Different Types of Taxes to Public School Finance

The relationship of the different types of taxes to the fiscal administration of public schools presents some challenging problems to the alert public school administrator. The general property tax is the chief revenue producer in many school taxing units. Tax experts generally agree that the property tax has many defects. If this be true then should public school administrators encourage its retention as a major source of school revenue? The principal discussions on the social and economic implications of the incidence of the property tax as with other types of taxes have been made primarily by tax experts. Yet, public school administrators are in charge of the largest single
tax budget in many of the taxing jurisdictions in the United States. To the degree that this exists and the public schools are among the major social institutions in a democracy, the leaders should not be content to permit others to be entirely responsible for making decisions which may either enhance or obstruct the objectives of the schools.

The problems inherent in the assessment of property for taxing purposes are believed to be pertinent to public school finance plans. Reduced assessments in school taxing units in recent years have been responsible for some of the ills experienced. Closely associated with the assessment of property is the problem of completeness of collections. It is believed that the thirty items included within the scope of a check list (p. 133) for evaluating the status and efficiency of property tax collections systems in urban areas will also furnish suggestions which may be useful in the public relations program.

Property tax delinquency may alter materially the adequacy of public school tax revenue when state legislatures give encouragement through moratorium laws and other apparently lenient measures designed to alleviate property tax burdens.

Another significant current problem from the viewpoint of the fiscal administration of the public schools is tax
exemption. Public school administrators may proceed to analyze the facts relative to property tax exemption in a school taxing unit by preparing a chart similar to the one presented in the answer to question 14 (p. 157). Here it is shown that exemptions are forms of subsidies which in some instances would not be granted if they were in equal sums in cash.

The literature dealing with the property tax is teeming with charges that property is taxed relatively heavy and that other types of taxes should be utilized more extensively when it is necessary to increase the tax load. This clamoring for relief of excessive property taxes has apparently aided in some instances to hasten the enactment of state legislation dealing with classification measures and rate limitation laws. The arguments, pro and con, which have been presented in some areas to increase state supervision over public school revenue may be a cause for concern to public school administrators who believe that "home rule" and local autonomy are necessary components of a democratic pattern of society.

Commodity taxes are next to property taxes in the amount of revenue provided for the support of public schools. The general sales tax although proclaimed by tax authorities as being regressive in nature is being extensively used in approximately half of the states.
School taxing units frequently participate in the distribution of tax receipts derived from commodity taxes. Evidence exists to indicate that commodity taxes will continue to play an important role in Federal and state taxing jurisdictions. In states which may yet enact commodity tax legislation, public school administrators should be alert to seek a satisfactory allocation of tax receipts either direct to the public school funds or in lieu thereof to the state general fund when it is provided that the public school share in disbursements.

The determination of whether or not business taxes posit pecuniary problems which are vital to public school finance may depend upon who makes the evaluation and the beliefs they hold relative to the privileges which business should enjoy. Should business be taxed? How much taxes should business pay? What is the incidence of business taxes? These and similar questions provide complicated and mooted problems which should be of concern to public school administrators.

Business taxes rank third in the percentage of tax revenue provided for public schools. Some business men however would contend that all taxes eventually rest upon business. Other viewpoints are held by some tax experts.

Tax authorities present many convincing arguments to show the advantages of personal taxes over other types.
Personal taxes yield large sums to the federal government, less to states and a relatively minor amount to local taxing units. It appears that personal taxes may be especially meaningful to public school taxing units in two ways:

1. To the extent that personal taxes are allocated to the state general fund from which the schools receive disbursements, the amount of revenue derived from them may be significant.

2. When large amounts of personal taxes are collected without due regard to other types of taxes paid, the efficiency of collections in other types of taxes may be adversely affected.

The relationship of highway taxes to public school revenue may be both general and specific. When more emphasis is given to road construction and maintenance within a state than to building and maintaining citizenship, there may develop serious social and economic implications. A heavy tax burden expended for roads may alter the adequacy of tax revenue available for public schools.

With highway taxes as with commodity taxes, business taxes and personal taxes specific fiscal relationships exist between the state and school taxing units when tax receipts are credited to the general fund of the state from which the public schools receive disbursements. It is believed that this plan is preferable to "earmarking" a percentage of the tax revenue direct to school aid as has been practiced in some Southern states and which the Federal Government has discouraged.
In the amount of revenue derived the fiscal significance of other non-property taxes to public school finance is less than any of the types of taxes recognized by tax authorities.

The data which public school administrators should analyze and appraise in justifying the use of other non-property taxes as a source of public school revenue depend some upon the tax in mind and how it may affect the total tax policy. For example the influence of social security taxes on the adequacy of public school revenue may be far more significant than the tax receipts obtained from an "earmarked" minor tax on insurance or chain stores.

It is suggested, however, that among the other non-property taxes there may be taxable items—at present taxed lightly, but which have considerable taxing proportions and which should be observed closely by public school administrators who are interested in expanding the tax base in order to assure equity and adequacy of revenue for public school taxing units.

Finally, the 210 references in the bibliography form a nucleus around which the handbook has been constructed. In the opinion of the writer those readings represent a minimum which should be examined by public school administrators if an adequate over-view of the field of taxation is desired.