

# AGRICULTURAL EXPERIMENT STATION

KANSAS STATE AGRICULTURAL COLLEGE  
MANHATTAN, KANSAS

## TAX REVISION IN KANSAS



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## SUMMARY.

1. The adoption of the tax amendment to the state constitution at the 1924 election, and other evidence of a growing interest in taxation problems in Kansas, indicate that this is a particularly opportune time to consider fundamental tax revision in this state.

2. General property taxes in Kansas from 1912 to 1922 increased less than in the west north central states and less than in the United States as a whole. The same is true of all revenues for the state, and for counties and incorporated places having a population of more than 2,500 in 1922. The principal reason for the increase in taxes is that people want government to do more and more for the general welfare. Rising taxes together with low purchasing power of farm products have made it particularly difficult for farmers to pay their taxes. Taxes on farm real estate in Kansas increased 132 per cent and selling value only 28 per cent from 1913 to 1923.

3. Fundamental changes in the economic life of the state, without corresponding tax revision, have resulted in an unequitable distribution of the tax burden.

4. History shows the futility of expecting that fundamental relief for the present taxpayers can be had merely by curtailing appropriations.

5. Tax revision in Kansas should follow two principal lines: (1) Improvement in property taxation, and (2) adoption of new means of raising revenue to supplement the property tax.

6. Property taxation could be improved (1) by adopting the county unit plan of evaluating property, *i. e.*, by substituting for the township assessors, one well qualified assessor in each county, and (2) by classifying property for taxation, as far as possible according to differences in the economic characteristics of property.

7. A personal income tax would be an effective supplement to property taxation, for it would reach salaries and other unfunded income, *i. e.*, income derived from sources other than property. It would help to reduce the tax burden on property. If the income tax suggested in Section VII were adopted it would probably yield about \$2,000,000 annually.

8. A production tax on oil and minerals would be just and practical and would reduce the tax burden on property. The measure suggested in Section VIII would yield a gross revenue of about \$2,700,000 annually.

9. An excise tax on certain nonessentials of wide use would reach a taxable capacity not reached by the other tax measures here suggested, and would help to distribute the tax burden. The tax proposed in Section IX would yield an annual gross revenue of about \$2,600,000.

10. A gasoline tax would be a practical means of raising revenue for roads. The cost of highways should be borne by those who use them, because such use confers financial and personal benefits on the individual. A gasoline tax of two cents a gallon would yield about \$3,500,000 in 1925.

11. The revenue obtained by the suggested tax measures, other than the gasoline tax, could be used in one of three ways: (1) It could be used exclusively for the support of the state government, and thus secure separation of state and local revenues; (2) it could be appropriated for the support of the elementary and of the secondary schools, or for other local purposes; or (3) the revenue could be divided between the state government and the subdivisions of the state. An appraisal of the argument for and against separation of state and local revenue indicates that some of the reasons advanced against separation probably have been exaggerated.

12. It appears that the suggested revenue measures are sufficiently related to each other and to the property tax to constitute logical parts of a system of taxation in Kansas.

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# TAX REVISION IN KANSAS.<sup>1</sup>

ERIC ENGLUND.

## I. INTRODUCTION.

Taxation presents some of the most important public questions in Kansas. Although these questions were by no means unimportant in the past, they are attracting more popular attention now than ever before, which indicates that this is a particularly opportune time for a consideration of fundamental tax revision.

Widespread and persistent public interest in any question is never accidental. It is based on actual conditions which people are facing; it has its root in problems of the day. These problems demand fact-finding, unbiased analysis of facts, and a practical program of action. Indeed, public interest in any question can result in nothing more than scattered and ineffective attempts at improvement, unless that interest is crystallized in a practical program. That the people of Kansas want fundamental tax revision is indicated by the fact that the tax amendment to the state constitution, permitting classification of mineral products and intangible property, was adopted at the 1924 election by a majority of 53,961 votes, although a similar amendment had been defeated at two previous elections.

This bulletin is primarily intended for the people of Kansas. It is hoped that it will aid constructive thinking and invite helpful discussion of the problems of state and local taxation that now confront us. It does not represent an altogether original study of taxation problems in Kansas, nor is it a complete analysis of the fiscal system of the state. Much more could be said on these subjects than is here presented, and it would be possible to assemble many additional facts bearing on the questions that have been raised. Some of the tables are not based on the writer's original research, but are rather compilations of data from the federal census and other sources. Part I is a statement of the principal reasons why fundamental tax revision is urgently needed in Kansas; and Part II contains a program of tax revision which the writer believes would benefit the state as a whole.

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1. Contribution No. 14 from the Department of Agricultural Economics.

## PART I.—THE NEED FOR TAX REVISION IN KANSAS.

The importance of taxation problems in Kansas, and the interest the public now takes in tax revision, are due to three principal causes: (1) The increase in taxes during the last decade; (2) the low purchasing power of farm products during the post war depression; and (3) a system of taxation that is no longer suited to the economic life of the state. While these factors are fundamental, they are by no means of equal importance. Hence, each of them will be discussed separately, in an effort to suggest their relative significance and to indicate their relation to the urgency of tax revision in Kansas.

### II. THE INCREASE IN TAXES.

#### 1. AMOUNT OF INCREASE IN TAXES.

The increase in the cost of government during the last ten years is so well known that it hardly needs mention. Taxes everywhere have risen, and Kansas is no exception. But few people have anything like a clear idea of the reasons for this increase. Relatively few know how much government costs now as compared to former years, and how taxes are apportioned between the state and the local government.

**Property Taxes in 1922 and in 1912.**—Table I shows the increase in general property taxes in the United States, in the west north central states, and in Kansas from 1912 to 1922. The west north central states are included in order to compare Kansas with states that are fairly similar in agricultural and industrial development. It will be noted that the increase in general property taxes in Kansas from 1912 to 1922 was not as great as in the west north central states or in all states.

**Price of Government versus Cost of Government.**—It is often misleading to measure the increase in taxes in dollars, for such a measurement merely shows that the *price of government* has risen, and is not an accurate statement of the increase in the actual *cost of government*. It does not take into consideration changes in the general price level; *i. e.*, changes in the purchasing power of money.

TABLE I.—General property taxes in the United States, in the west north central states, and in Kansas, in 1922 and in 1912. (a)

	1922.	1912.	Percent of increase, 1912 to 1922.		Average for each person.	
	(000 omitted.)	(000 omitted.)	Based on number of dollars.	Based on pur- chasing power of money (b).	1922.	1912.
All states.....	\$3,502,941	\$1,349,841	160	73	\$32.22	\$13.91
West north central states (c).....	490,767	180,440	172	81	38.52	15.06
Kansas.....	69,331	27,895	149	65	38.83	16.55

(a) Adapted from data published by the Bureau of the Census.

(b) Department of Labor, index of wholesale prices of all commodities.

(c) Comprise Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska and Kansas.

Table I shows the per cent of increase in property taxes from 1912 to 1922, both in money and in purchasing power of money. Property taxes in Kansas increased 149 per cent when expressed in dollars, but this increase was only 65 per cent when shown in purchasing power of money. While this makes a large difference in percentages, it does not obscure the fact that the real cost of government increased greatly from 1912 to 1922.

**Property Taxes in Kansas Since 1881.**—Table II gives the property taxes in Kansas by years from 1881 to 1922, in dollars and in purchasing power of money. Column (3) gives the purchasing power of the total tax levy, in per cent of average purchasing power for the five-year period, 1910 to 1914. Column (6) shows the purchasing power of the tax levy per capita.

The tax per capita, expressed in purchasing power of money, would come nearer being a true measurement of the increase in the cost of state and local government than any other figure. If it could be assumed that the public service has become neither more nor less efficient since 1881, column (6) of Table II would be a fair indication of the increase in government service per capita in Kansas. But this would probably be an unfair assumption, since governmental agencies, schools, and other branches of the public service, have surely shared in the general increase in efficiency during the last several decades.

Since property taxation is not the only source of revenue, figures showing the increase in property taxes are not a complete indication of the rise in the cost of state and local government.<sup>2</sup> Table III gives the increase in all revenue, from 1912 to 1922, for state governments, counties, and incorporated places with a population over 2,500.<sup>3</sup>

Table III also shows the amount of revenue derived from sources other than property taxes in 1912 and in 1922, in the United States, in the west north central states, and in Kansas. Special attention is called to the fact that this table shows only the revenue for states, counties, and incorporated places having a population of more than 2,500. It is of interest to note that, although the total amount of revenue derived from sources other than property increased greatly from 1912 to 1922, the ratio of general property taxes to all revenue

2. General property taxes and special assessments were 98 per cent of total revenue in Kansas in 1922.

3. No allowance has been made in Table III for the fact that places not having a population of 2,500 in 1910 and having it in 1920 are included in the 1922 but not in the 1912 revenues. In published reports the Bureau of the Census states that this is "a difference which would have very little effect on the comparability of the totals."

TABLE II.—Total tax and tax per capita by years, 1881 to 1922, expressed in dollars, in per cent of average for 1910 to 1914, and in purchasing power of money. (a)

YEAR.	(1) Total property tax levy for all purposes.	(2) Total tax in per cent of 5-year average, 1910-1914.	(3) Total tax expressed in pur- chasing power of money (a). (Average 1910- 1914=100.)	(4) Tax per capita.	(5) Tax per capita in per cent of average for 1910-1914.	(6) Per capita tax expressed in pur- chasing power of money (a). (Average 1910- 1914=100.)
1881.....	\$6,154,258	21	22	\$8.65	40	41
1882.....	6,663,105	24	24	6.91	41	41
1883.....	7,057,603	25	25	6.86	41	42
1885.....	8,890,024	32	37	7.01	42	48
1887.....	11,496,708	41	48	7.59	45	53
1889.....	13,432,320	48	55	9.17	55	66
1891.....	12,683,648	45	53	9.47	57	67
1893.....	13,102,794	47	59	9.58	57	71
1895.....	13,022,863	46	65	9.76	58	82
1896.....	12,612,125	45	66	9.43	56	82
1897.....	12,593,451	45	66	9.42	56	82
1898.....	14,104,943	50	71	10.14	61	87
1899.....	13,328,330	47	61	9.35	56	73
1900.....	13,548,901	48	57	9.38	56	67
1901.....	13,996,303	50	60	9.54	57	69
1902.....	14,477,601	51	60	9.88	59	69
1903.....	16,903,157	60	70	11.36	68	79
1904.....	16,063,637	57	67	10.46	63	74
1905.....	17,880,379	64	74	11.57	69	79
1906.....	18,485,746	66	72	11.47	69	75
1907.....	20,497,603	73	74	12.41	74	76
1908.....	21,217,979	75	81	12.80	77	83
1909.....	23,738,135	84	87	13.90	83	86
1910.....	24,516,113	87	88	14.45	86	87
1911.....	27,776,736	96	98	16.47	98	100
1912.....	27,806,606	99	98	16.66	100	99
1913.....	29,483,883	105	103	17.49	104	102
1914.....	30,988,122	110	108	18.53	111	109
1915.....	33,849,567	120	118	20.24	121	118
1916.....	35,788,531	127	101	20.86	125	99
1917.....	41,179,180	146	82	23.71	142	80
1918.....	44,543,634	158	79	25.67	154	77
1919.....	55,613,474	198	90	31.60	189	86
1920.....	68,026,739	242	97	38.22	229	92
1921.....	75,962,537	270	166	42.37	253	155
1922.....	69,378,647	247	150	38.83	232	141

(a) Purchasing power of the total tax levy and of the average tax per capita was arrived at by dividing the indexes in columns (2) and (5) by the index of whole sale prices in the United States based on the 5-year average of prices August, 1909, to August, 1914, as 100. This index of prices appears on page 2 of the United States Department of Agriculture bulletin 999.

TABLE III.—Revenue of states, counties, and incorporated places over 2,500, in the United States, in the west north central states and in Kansas, in 1922 and in 1912. (a)

(Expressed in thousands of dollars.)

		Total of specified revenues (b).	General property taxes.	Special taxes.	Poll taxes.	Licenses and permits.	Special assessment.
All states .....	1922	\$3,144,905	\$2,304,609	\$250,455	\$23,479	\$399,609	\$166,753
	1912	1,457,033	1,077,346	83,960	12,513	170,406	112,808
Per cent increase.....		116	114	200	88	135	48
West north central states (c) .....	1922	\$318,831	\$229,893	\$10,450	\$765	\$49,859	\$27,864
	1912	160,353	119,203	2,819	982	18,729	18,620
Per cent increase.....		99	93	271	—22	166	50
Kansas .....	1922	\$38,976	\$30,634	\$771	\$91	\$3,480	\$4,000
	1912	19,786	16,395	170	69	665	2,487
Per cent increase.....		97	87	354	32	423	61

(a) Adapted from data published by the Bureau of the Census.

(b) It should be noted that this table does not include revenues of incorporated places having less than 2,500 population, nor revenues of school districts, townships, and other civil divisions not given in this table. Total taxes for all states in 1922 were \$4,224,616,000, for the west north central states, \$558,814,000 and \$75,983,000 for Kansas.

(c) See footnote (c), Table I.

remained almost constant during this period, as shown by the following figures adapted from Table III:

General property taxes in per cent of all revenue for states, counties, and incorporated places of more than 2,500.

	1912.	1922.
All states .....	73.9	73.2
West north central states.....	74.3	72.1
Kansas .....	82.9	78.6

These figures also show that general property taxes are a relatively greater source of revenue in Kansas than in the west north central states, and relatively greater in these states than in all states.

**Taxation and the National Income.**—An effort has been made by the National Industrial Conference Board to express the increase in taxes in per cent of the national income<sup>4</sup> The following figures, adapted from this source, show federal, state and local taxes in per cent of the national income, for the years indicated:

	1903.	1913.	1919.	1921.	1922.
Federal taxes .....	2.5	2.0	7.6	8.8	5.0
State taxes .....	.8	.9	.9	1.6	1.5
Local taxes .....	3.4	3.5	3.6	6.3	5.6
Total .....	6.7	6.4	12.1	16.7	12.1

Probably the most significant of these figures are those showing the increase in federal taxes. But a large part of this increase is attributable to the World War. Federal expenditures on account of the war are, and will for several years continue to be, an important part of the total expenditures of the national government. However, this particular item will decrease from year to year. Barring the possibility of great wars in the future, it can be said with certainty that present federal expenditures include an abnormally high expenditure for war.

It is important to note that, according to the above figures, local taxes in 1922 absorbed a larger per cent of the national income than federal taxes. In 1921 local taxes required nearly twice as large a share of the national income as in 1903 or in 1913. This increase in the cost of local government may indicate a more basic tendency than the increase in federal taxes since 1917.

**Increase in Debts of State and Local Government.**—Closely related to the increase in taxes is the increase in public borrowing. State and local governments in the United States increased their net indebtedness 128 per cent from 1912 to 1922.<sup>5</sup> Local taxing

4. National Industrial Conference Board, research report No. 64, page 13.

5. Net indebtedness is the gross indebtedness less sinking fund assets.

units, especially the cities, were responsible for the major share of this increase. It will be noted in Table IV that the public debt in Kansas increased slightly more than in the United States as a whole, but much less than in the west north central states.

Public borrowing is not wholly to be condemned, although it may be overdone. It goes without saying that there are instances when it is sound public policy to issue bonds. This is a universal means whereby the public borrows money for improvements or for other purposes. The bond is a mortgage on future revenue. When people prefer to mortgage future revenue in order to have improvements or other advantages in the present, it must be admitted, unless one should pass judgment on the wisdom of public opinion, that it is justifiable and proper to issue bonds. In public as well as in private affairs, there is a real danger of putting too much premium on the advantage of having improvements now, and discounting too heavily the disadvantage of paying for these improvements in the future. Disproportionate emphasis on present advantages and a disregard of the future are likely to result in extravagant public borrowing. It is a function of statesmanship to guard against excessive public borrowing and to guide public policy away from the dangers of large public debts.

## 2. REASONS FOR THE INCREASE IN TAXES.

The fundamental reason for the increasing cost of government is the fact that people demand more and more government service. Many of the advantages now provided by local, state, or national government, did not exist in earlier times, or were provided by individuals, by families, or by other small groups. An eminent economist says: "The true, underlying cause of increased and increasing public expenditures is found in the development of state and nation as cooperative institutions for promoting the general welfare."<sup>6</sup> The reader can supply a great many examples of this tendency in government; only a few will be mentioned here.

**Better and More Costly Schools.**—The schools of Kansas have improved during the last decade. Well constructed and commodious school buildings impress the traveler as he passes through the cities and towns of Kansas. Most of these school buildings are of brick or stone, and many were built in recent years—the years of rapidly increasing taxes. Higher training is now required

6. Professor Richard T. Ely, Director of the Institute for Research in Land Economics and Public Utilities, in an address on "Taxation of Farm Land" before the Tri-State Development Congress, Duluth, Minn., January 24, 1924.

TABLE IV.—Net public debt of the state governments, and political subdivisions in the United States, in the west north central states and in Kansas, 1912 to 1922, expressed in thousands of dollars. (a)

	YEAR.	Total.	Total in per cent of 1912.	Average per capita.	State govern ments.	Counties.	Incor- porated places.	All other civil divisions.
All states.....	1912	\$3,821,897	100	\$39.38	\$345,940	\$371,528	\$2,884,884	\$219,545
	1922	8,696,939	228	79.99	935,543	1,255,211	4,708,940	1,797,245
West north central states.....	1912	\$282,971	100	\$23.62	\$8,180	\$49,460	\$188,102	\$37,229
	1922	851,840	301	66.81	74,681	185,440	309,363	282,356
Kansas.....	1912	\$52,868	100	\$31.36	\$243	\$9,777	\$36,730	\$6,118
	1922	123,470	234	69.16	78	21,998	69,501	31,893

(a) Adapted from data published by the Bureau of the Census.

of the teachers, which in turn necessitates better remuneration to induce capable men and women to enter the teaching profession. Modern specialization makes instruction more effective; but it requires a greater number of teachers. Compulsory school attendance and the rapidly increasing enrollment in the high schools have also contributed to the increase in the cost of public schools. All of these improvements—school houses, teachers, equipment, etc.—cost money. In order to have these and other advantages, the people as a whole have increased their tax burden because they believe that these advantages are worth the cost.

**Wide Range of Government Service.**—Roads and highways are better, and further improvements and better methods of financing them are in prospect; public libraries are found in all cities and in many of the small towns; streets are paved and usually well lighted; police and fire protection is provided at public expense. The discovery of new facts and principles by experiment stations and other public or private research institutions has greatly increased the productive power of agriculture and of the industries. The benefits that have come from these discoveries are so numerous and of such incalculable benefit to society that it is beyond the scope of this bulletin to attempt to enumerate or evaluate them. But against these vast advantages stands the cost to the taxpayer of publicly supported research. The cost is measurable in dollars and cents, while the advantages are immeasurable.

**Development of Public Health Service.**—Improvement in the public health service is another example of the growing tendency of government to do more and more for the common welfare. Greater attention to water supply, sanitary sewerage disposal, improved milk supply, better methods of handling food, and the teaching of higher standards of personal hygiene, are recognized as legitimate parts of the public health work. In addition to this, a certain amount of medical and dental inspection of school children is provided free of charge, and the number of public health and school nurses is increasing. Practical results of the above mentioned public health service are found in the decrease in deaths from tuberculosis, typhoid fever, and other communicable diseases, and in a lengthening of the span of human life. According to the Life Extension Institute of New York, the average life expectancy of a person in the United States to-day is 55 years, while less than 150 years ago it was only 35 years.<sup>7</sup> Lengthening of the span of

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7. The Kansas City Star, Sunday, June 22, 1924.

human life is of far-reaching economic importance, to say nothing of the advantages from a lower death rate and a general increase in human happiness. Progress in public health was made possible by medical research and education. Public enterprise and private institutions, such as the Rockefeller Institute, have expended vast sums of money for the advancement of medicine. Public expenditures for this work are one cause of the increase in taxes. But who would say that the resulting benefits to the public have not exceeded the cost?

**Costs Can Be Measured, but Benefits Are Immeasurable.—**

It is relatively easy to measure the present cost of government, and to compare this cost with that of former years; but it is impossible to measure accurately the advantages of the services rendered by government. We are born into a society where government provides police protection, schools, research, highways, and a great many other advantages. We enjoy these advantages from childhood to old age, and we become so accustomed to them that we sometimes fall into the habit of regarding them as natural. Many people, especially those who pay little or no direct taxes, are prone to forget that these advantages are bought with the taxpayer's money, and that higher taxes inevitably follow expansions in the service functions of government.

**Does Government Cost Too Much?—a Difficult Question.—**

In this brief survey of the reasons for the increase in the cost of state and local government, no attempt has been made to answer the question, Does government cost too much? It is beyond the scope of this bulletin to discuss this subject, and it is improbable that a satisfactory answer could be formulated since the benefits resulting from public expenditures cannot be measured accurately. Many opinions on this question could be cited, but these are on the whole ineffective, in the absence of specific data.

Although the amount spent for each public purpose in Kansas varies from year to year, the general trend has been upward, as shown in Table II. Furthermore, there is no evidence of a decline in the tendency of government to do more and more for the common welfare.

In view of the growing demand on the public treasury, many students of public finance have come to the conclusion that the present system of taxation needs to be revised both in theory and in practice, with the object of securing a wider distribution of the tax burden.

**3. THE AGRICULTURAL DEPRESSION AND THE INCREASE IN TAXES.**

The increased importance of taxation problems in Kansas during the last three or four years is due, in a large measure, to the low purchasing power of farm products since 1920, which has made it more difficult for farmers to pay their taxes. Farm prices have been near the prewar level while industrial wages and the price of manufactured goods have remained on a higher level. The following figures, published by the United States Department of Agriculture, show the purchasing power of farm products, the farm price of crops and live stock, and the general wage level, with 1913 as 100.

Year.	Purchasing power of farm products.	Farm price of crops and live stock.	General wage level (a).
1913.....	100	100	...
1914.....	112	106	100
1915.....	106	102	103
1916.....	89	118	116
1917.....	106	186	131
1918.....	112	208	188
1919.....	111	216	188
1920.....	86	203	226
1921.....	67	108	206
1922.....	69	112	201
1923.....	72	120	218

(a) New York factory workers (1914 = 100).

**Delinquent Taxes on Farm Real Estate.**—The increase in delinquent taxes on farm real estate, shown in Table V, and figure 1 indicate the effect of high cost of government and low purchasing power of farm products on the ability of farm real estate to bear the tax burden.

The increase in delinquent taxes on farm real estate emphasizes one weakness in a fiscal system where general property taxation is almost the only means of raising revenue. The amount of taxes varies little, if at all, with the income from property, and consequently property owners find it very difficult to pay taxes in years of economic depression.<sup>8</sup>

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8. Under the present system of assessment and taxation in Kansas, the tax burden on farm real estate is modified in a most indirect manner, if at all, by changes in the income from the land. A change in income will result in a change in the selling value of the property. A change in selling value may result in a change in assessed valuation at the following assessment period, which, in the case of real estate, comes every four years in Kansas.

TABLE V.—Delinquent taxes on farm real estate in 27 counties in Kansas, by sections of the state (a) and by years, 1917 to 1922. (b)

YEAR.	All counties reporting.		Corn belt.		General farming.		Flint hills.		Wheat belt.		Grazing region.	
	Amount.	Per cent of 1917.	Amount.	Per cent of 1917.	Amount.	Per cent of 1917.	Amount.	Per cent of 1917.	Amount.	Per cent of 1917.	Amount.	Per cent of 1917.
1917.....	\$68,008	100	\$10,055	100	\$6,834	100	\$1,514	100	\$19,603	100	\$30,002	100
1918.....	91,770	135	12,361	122	7,729	113	1,820	120	29,782	152	40,078	133
1919.....	116,921	172	14,220	141	4,647	68	1,833	121	31,610	161	64,611	215
1920.....	156,574	230	22,406	222	6,736	99	1,919	126	43,000	219	82,513	275
1921.....	262,322	385	34,539	343	15,825	232	6,553	433	80,175	409	125,230	417
1922.....	308,708	454	26,637	264	18,553	271	11,241	742	111,744	570	140,533	468
Number of counties reporting.....	27		7		3		2		10		5	

(a) See figure 2 for the position of each section on the map of Kansas.  
 (b) Data on delinquent taxes were obtained from the county treasurers by questionnaire.

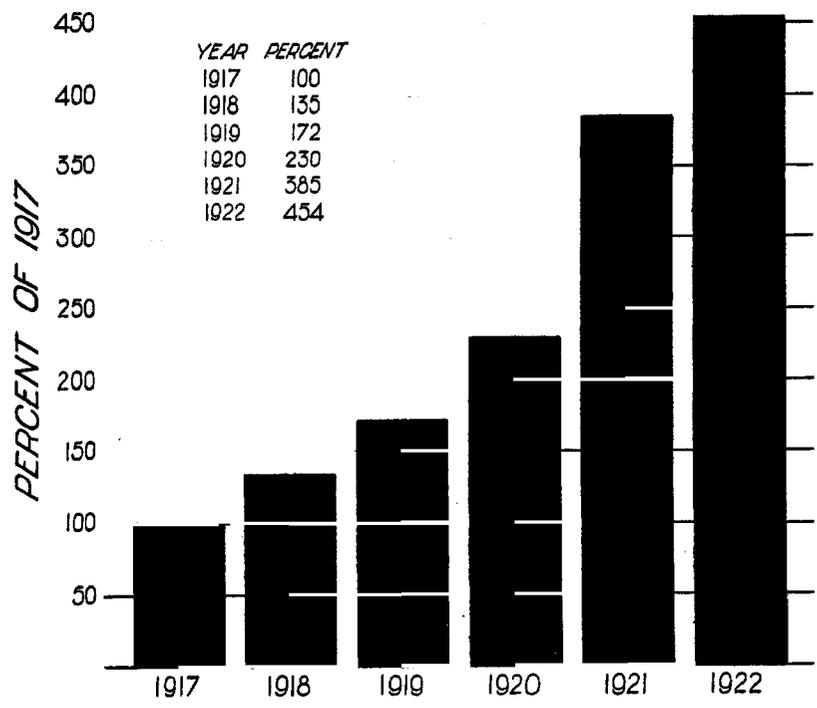


Fig. 1.—Delinquent taxes on farm real estate in 27 counties in Kansas by years from 1917 to 1922, in per cent of 1917, adapted from Table V.

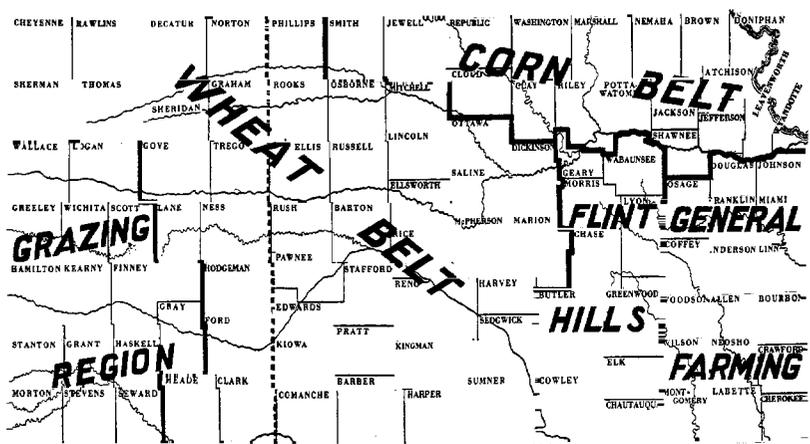


Fig. 2.—Map of Kansas showing the principal agricultural sections of the state. The dotted line between Norton and Phillips counties, and to the southern border of the state, marks a division between the eastern and the western halves of the wheat belt.

### III. ECONOMIC CHANGE AND THE NEED FOR TAX REVISION.

**Present Fiscal System Better Suited to Frontier Life.**—The chief reasons for the present importance of taxation problems in Kansas lie in causes that are deeper and more fundamental than the agricultural depression. When Kansas became a state, general property taxation, as prescribed by the constitution, was almost the only means of raising state and local revenue.<sup>9</sup> Such a system was fairly well suited to the needs of the state, in the early days. Property was then homogeneous, visible, tangible, and the amount of property owned was a better measurement of ability to pay taxes than it is at the present time.

**Economic Life Has Become More Complex.**—Conditions have changed in Kansas during the sixty-three years of her statehood. She has grown away from the primitive and simple economic life of frontier days. The economic changes that have taken place during the last fifty years and which are pertinent to the subject at hand, may be divided into two groups: (1) An increase in the number of salaried people, and others who derive their income from sources other than taxable property; (2) an increase in intangible property, the major part of which escapes taxation.

**Increase in Number of Salaried People and Wage Earners.**—The increase in the number of salaried people and wage earners in Kansas is a normal result of the economic evolution of the state. This is also the experience of other states in their progress from the simple life of frontier days to the more complex economic conditions of the present time, with its diversified industries, extensive transportation systems, commercialized agriculture, and expanding public service. More persons are employed by public and private institutions than formerly, which is a result of expansion in the functions of state and local government and of the growth of corporations and other private business concerns.

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9. Article 11, section 1, of the state constitution, on which the fiscal system of Kansas is based, reads as follows:

"The legislature shall provide for a uniform and equal rate of assessment and taxation; but all property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent and charitable purposes, and personal property to the amount of at least two hundred dollars for each family, shall be exempted from taxation."

This section was amended at the 1924 election to permit classification of mineral products and intangible property for taxation. See Section VI for text of amendment.

All property is taxable at its "true value in money," except property specifically exempted by law. (Sections 11,149-50 and 11,183, General Statutes of 1915.)

The term "uniform and equal" requires merely that there shall be "uniform and equal rates of assessment and taxation in each separate taxing district of the state." (Kansas Supreme Court Reports, Vol. 50, page 383.)

Reference has been made to the fact that services rendered by government have been greatly extended in recent years, without a corresponding diffusion of the cost of government. Varying degrees of ability to pay taxes exist among the masses, many of whom make no direct contribution to the public treasury, but who nevertheless receive daily benefits from the expanding public service. Their income is not reached directly under the present system unless a portion of the income is invested in taxable property. However, salaried people and wage earners probably pay indirect taxes. For instance, those who rent rooms or apartments help to pay their landlord's taxes; customers contribute to the payment of the merchants' taxes; etc. Many of the indirect taxes paid by salaried people and by wage earners are also paid by property owners, who are already paying heavy direct taxes. They, too, go into the market and purchase goods and services at the same price levels as other buyers, and consequently pay a portion of the taxes that are passed on from seller to buyer as a part of the price of goods and services. Since a discussion of the incidence of taxation is beyond the scope of this bulletin, no attempt will be made to state any of the generally accepted explanations of how certain taxes are shifted, or to refute any of the many erroneous ideas on this subject.<sup>10</sup>

**Increase in Intangible Property.**<sup>11</sup>—The growth of intangible property is largely a result of public and private borrowing. Like the increase in the number of salaried people and wage earners, it is a natural result of economic evolution, from the simple life of a frontier community to the complex economic system of the present time.

By means of bond issues, the public borrows money for various improvements, such as roads, bridges, public buildings, and for other purposes. Everyone knows that public borrowing has increased rapidly in the last fifty years, particularly during the last decade.<sup>12</sup> Because of the tax exempt feature of public bonds, these bond issues afford an opportunity for wealth to escape taxation.

10. "The shifting and incidence of taxation is one of the most subtle and complicated problems in the whole field of economic science, and as a consequence is attended by the greatest divergence of opinion among practical business men and the various classes of tax payers. By the shifting of the tax we mean its transfer from the original tax payer to some other person."—From an article, "Can Income Taxes be Shifted?" by Professor Edwin R. A. Seligman, in the National Income Tax Magazine, April, 1924.

11. A definition of intangible property: "The term intangible property includes money, notes, mortgages, stocks, bonds and other evidences of debt, annuities, royalties, copyrights and all rights to income vested in an ownership separate and distinct from the ownership of the concrete things which produce the income so received."—From section 1 of Senate Bill No. 149, Kansas session, 1923.

12. See Table IV.

Table VI shows the amount of wholly tax-exempt securities outstanding in the United States on March 31, 1924:

Much of the increase in private borrowing is due to the growth of corporate organizations. Corporations "borrow money" from individuals through the sale of stocks and bonds. This is an advantage of modern economic organization, for it makes possible the pooling of relatively small accumulations of capital in large business enterprises, under the direction of competent managers. But the result of private borrowing that primarily concerns the subject at hand is the increase in the volume of intangible property.

**Old System of Taxation Fails to Meet New Needs.**—The present system in Kansas does not attempt to reach income wealth; and while it professes to tax intangible property, it is a well-known fact that little of this property reaches the tax rolls.<sup>13</sup> On this point, the State Tax Commission says:

"One clear result of the present system is that the tax burden is slowly but surely being shifted to tangible property; that is, property which has visibility, that can be found by the assessing officers without the aid of the owners. In Kansas intangible property to the extent, probably, of one-fourth of the wealth of the state, even if not more than that percentage, evades the tax because it is invisible and cannot be found by the assessing officers without the cooperation of its owners, which comparatively is rarely available."<sup>14</sup>

Kansas has adhered to a system of taxation adopted more than sixty years ago when this state was in the pioneer stage, while fundamental changes have been taking place in the economic life of the state. Herein lies the real reason for the urgent need for tax revision.

Figure 3 shows the assessed valuation of the four classes of property in Kansas in 1923, in per cent of the assessed valuation of all taxable property. These classes must bear a larger share of the cost of state and local government, when other property escapes taxation,

**Taxes on Land Increase Faster Than Land Values.**—During the past eleven years, taxes on farm land in all parts of Kansas have increased much more rapidly than selling value. This is shown in Table VII which gives the approximate tax per acre of all taxable land in 1913 and in 1923, and the average tax for the three-year period, 1921 to 1923. The three-year average is shown because of the possibility that 1923 might not be a typical post-war year in

13. The adoption of the tax amendment to the constitution in 1924 will enable the legislature to enact appropriate laws relative to the taxation of intangible property.

14. The eighth biennial report to the legislature (1923) by the State Tax Commission, page 81.

TABLE VI.—Estimated amount of wholly tax-exempt securities outstanding March 31, 1924, expressed in millions of dollars. (a)

ISSUED BY	Gross amount.	Amount held in treasury or in sinking fund.	Amount held outside of treasury and sinking fund.
States, counties, cities, etc. ....	\$11,454	\$1,718	\$9,736
Territories, insular possessions, and District of Columbia. ....	125	20	105
United States government. ....	2,294	757	1,537
Federal land banks, intermediate credit banks, and joint stock land banks. ....	1,313	104	1,209
<b>Total March 31, 1924. ....</b>	<b>\$15,186</b>	<b>\$2,599</b>	<b>\$12,587</b>
<b>Comparative totals:</b>			
December 31, 1923. ....	\$14,885	\$2,564	\$12,321
December 31, 1922. ....	13,652	2,331	11,321
December 31, 1918. ....	9,506	1,799	7,707
December 31, 1912. ....	5,554	1,468	4,086

(a) Data from bulletin issued by the United States Treasury Department, May 3, 1924. This table is adapted from the Bulletin of the National Tax Association, June, 1924, page 290.

Kansas land values. This table also gives the selling price per acre.<sup>15</sup> The tax and the selling price in 1923, and the average of these for the three-year period, are compared with 1913.<sup>16</sup>

Table VII and figure 4 show that taxes in Kansas are gradually absorbing the rental value of land, which means that farmers are by degrees being deprived of their property in land. If this tendency

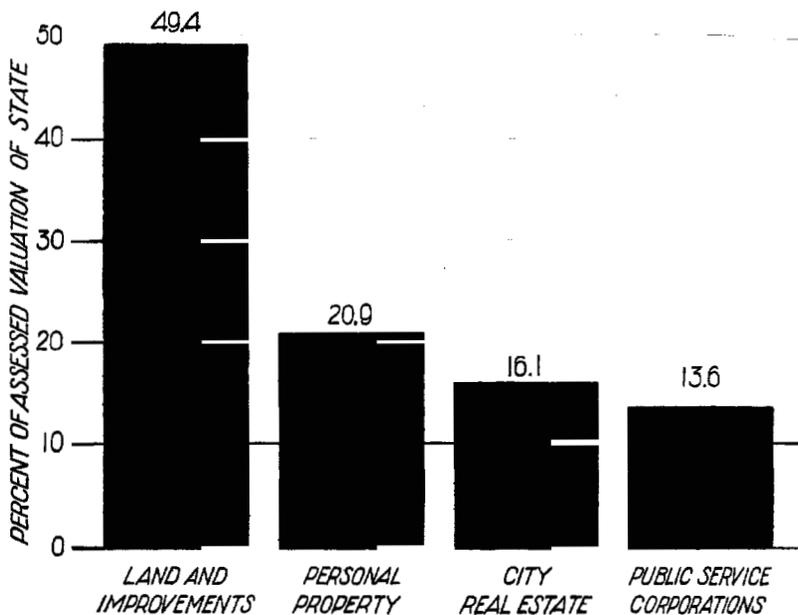


FIG. 3.—Assessed valuation of the four classes of taxable property in Kansas in 1923, expressed in per cent of all taxable property.

is not halted, taxes will eventually take all the income from land; and to take all the income from property is equivalent to taking the property itself. The danger of this gradual absorption of land values

15. The selling value per acre of land as shown in Table VII, is based on the record of bona fide sales of the following number of acres:

Section of state.	1913.	1923.	Total acres, 1921, 1922 and 1923.
Corn belt .....	176,917	66,866	248,190
General farming .....	114,417	50,750	172,678
Flint hills .....	118,495	82,619	91,956
Eastern wheat belt .....	317,778	138,788	494,689
Western wheat belt .....	188,156	85,682	425,146
Grazing region .....	94,651	114,568	359,247
Totals .....	1,005,409	489,286	1,791,901

16. The tax per acre was calculated by sections and not by counties. Because of the fact that the ratio of the total valuation of farm real estate to the total valuation of all property is not the same in all counties, and since the county tax rate is not uniform over the state, there is a possibility of an error in the figures showing the average tax per acre. By a detailed method of calculation (calculation by individual counties) it was found that this error was 0.79 per cent in 1923 and 0.56 per cent in 1913 for the state as a whole, an error so small as to be almost negligible.

TABLE VII.—Increase in taxes per acre compared with increase in selling price, average for the state and for each section. (a)

YEAR.	State average.		Corn belt.		General farming.		Flint hills.		Eastern half of wheat belt.		Western half of wheat belt.		Grazing section.	
	Tax per acre.	Price per acre (b).	Tax per acre.	Price per acre.	Tax per acre.	Price per acre.	Tax per acre.	Price per acre.	Tax per acre.	Price per acre.	Tax per acre.	Price per acre.	Tax per acre.	Price per acre.
1913.....	\$0.22	\$38.05	\$0.42	\$67.08	\$0.34	\$48.62	\$0.23	\$40.07	\$0.24	\$45.73	\$0.09	\$16.91	\$0.06	\$10.12
1923.....	0.51	48.73	0.91	82.17	0.76	66.40	0.49	54.53	0.53	56.94	0.28	24.85	0.19	13.01
Per cent increase, 1913 to 1923.....	132	28	117	23	124	37	113	36	121	25	211	47	217	29
Average for 3 years, 1921 to 1923.....	\$0.50	\$52.66	\$0.92	\$91.37	\$0.75	\$73.97	\$0.48	\$58.81	\$0.53	\$60.20	\$0.26	\$24.21	\$0.18	\$15.70
Percent increase over 1913,	127	38	119	36	120	52	108	47	121	32	189	43	200	55

(a) See figure 2 for the position of each section on the map of the state.  
 (b) Weighted on the basis of average selling price per acre and total acreage of taxable land in each section of the state.

by taxes is best expressed in the words of an authority on land taxation :

“Taxes on farm lands are steadily and rapidly approximating the annual value of farm land; and in a period varying from state to state, but in most of the states in a relatively short period—a period so short that some of us may live to see it, if the movement continues unchecked—the taxes will absorb farm land values, the farmers’ land will be confiscated by the state and our farmers will become virtual tenants of the state.”<sup>17</sup>

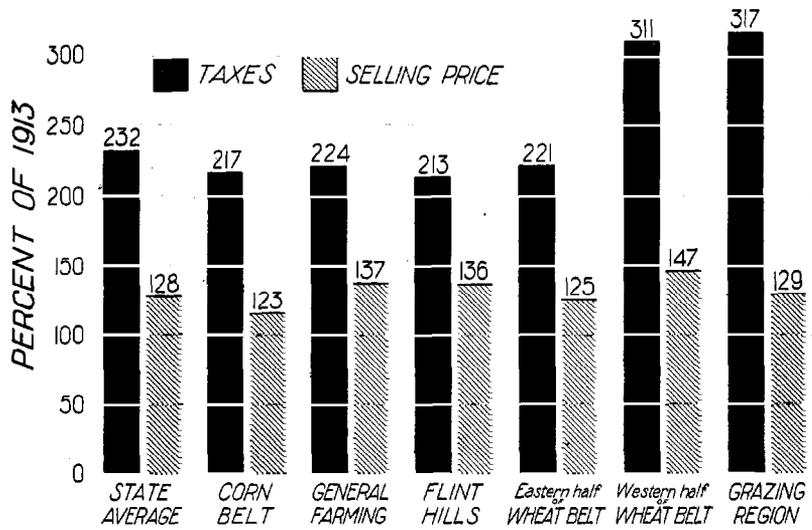


FIG. 4.—Taxes on land and improvements and sale price of land and improvements in 1923, expressed in per cent of 1913, for each section of Kansas and for the state as a whole.

Such a result of the present system of taxation will mean a lower standard of living in rural communities and a removal of that incentive to effort in production, and to higher standards of citizenship, which goes with a wide diffusion of land ownership among farmers.

IV. TAX REVISION VERSUS CURTAILMENT OF APPROPRIATIONS.

**Promises of Tax Reduction Always Popular.**—There probably never was a time in the history of the state when taxpayers did not think that taxes were too high, or when candidates for office did not promise tax reduction. But taxes in Kansas and elsewhere have continued to rise, as shown in Section II of this bulletin. In most

17. Professor Richard T. Ely, in an address on "Taxation of Farm Land," before the Tri-State Development Congress, Duluth, Minn., January 24, 1924.

instances, those who promise tax reduction do so with sincerity, believing that they will be able to fulfill their promises and bring relief to the taxpayer. But they find, upon assuming the duties of office, that they move largely in lock-step with economic and political forces, which they are unable to modify or abate to any appreciable extent. They find that neither waste nor alleged corruption is the most important cause of the rising cost of government, but that the real reason lies in the fact that people want more government service.<sup>18</sup>

**Little Reduction Possible.**— Much has been said about lowering taxes by reducing the cost of government. No one will deny that economy should always be demanded in the use of public funds. Nevertheless, history shows the futility of assuming that our problems of taxation can be solved merely by cutting down appropriations. Comparatively little reduction can be made, because very few people want to curtail the legitimate functions of the state. We are compelled to face the fact that no substantial reduction in the tax burden is possible by curtailing the work of the state departments, or even by eliminating some of them.

**Tax Reduction and the 1923 Legislature.**— Perhaps no body of lawmakers in this state was more determined to reduce taxes than was the 1923 legislature. The governor also was pledged to do everything in his power to reduce public expenses. Both the legislative and the executive branches of the state government endeavored to bring relief to the taxpayer. But the appropriations made by that legislature were only \$2,006,967 less than the amount appropriated by the previous legislature.<sup>19</sup> This was a reduction of 1.39 cents on the dollar of all property taxes for state and local purposes for the previous two years. The main item of this reduction consisted in the discontinuation of the building program in the state institutions for the biennium 1924 to 1925. The "savings" thus effected were not savings in the real sense of the word, but were comparable to those made by farmers and others, in private business, when desirable construction and repairs were delayed pending the arrival of better times. Therefore, the reduction in appropriations was mainly a postponement of expenditure, since the building program will undoubtedly be resumed.

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18. See subdivision 2 of Section II.  
19. These figures do not include the state bonus for ex-service men. It must be borne in mind that the bonus was approved by a large majority of the voters, and that taxes on this account were, and still are, beyond the control of the legislature and the governor.

**Legislature Controls Only Small Part of Tax Levy.**— Another reason why reductions in legislative appropriations cannot be relied upon for fundamental tax relief, is that the budgets of the state government and of the state institutions constitute a relatively small part of the total property tax in Kansas. Figure 5 shows the division of the property tax dollar for the various public purposes in 1923.

The following figures, showing property taxes levied for state purposes in per cent of total taxes by years since 1903, give further emphasis to the fact that the legislature has direct control over only a small part of the total tax levy:

Year.	State tax in per cent of total tax.	Year.	State tax in per cent of total tax.
1903.....	14.9	1913.....	11.4
1904.....	12.4	1914.....	10.9
1905.....	12.5	1915.....	10.7
1906.....	10.5	1916.....	10.8
1907.....	13.4	1917.....	10.9
1908.....	10.4	1918.....	9.0
1909.....	13.3	1919.....	10.9
1910.....	11.8	1920.....	8.0
1911.....	12.0	1921.....	11.2
1912.....	11.9	1922.....	8.5
		1923.....	(a)7.8

(a) Exclusive of soldier bonus.

**Tax Levy Divided into Many Parts.**— The state and each sub-division control only a relatively small part of the total tax levy. The levy for any one of these units is further subdivided for various specified purposes. Any taxpayer in Kansas can get a good idea of the division of his total taxes by studying the itemized levies as given on the back of his tax receipt.

Dissatisfied citizens sometimes blame the county commissioners, the school board, the state institutions or some branch of their work, some one of the state departments, etc., for high taxes. But sweeping denunciations would not be forthcoming so often if the public were better acquainted with the fact that the tax levy is rather minutely divided among the various political subdivisions and among the various purposes within each division.

Administrators of public affairs know that it is comparatively easy to promise tax reduction, especially when the promise is unaccompanied by specific plans for its fulfillment. They are also aware of the fact that the real difficulties begin when they try to dispense with a public function in order to reduce taxes. The real reason for the disparity between promise and practice in tax reduction is that

people are inclined to ask for more, rather than for less government service.

Table VIII shows the division of the 1923 tax levy among the various subdivisions in each section of the state. This table indicates the difficulty of materially reducing the total tax levy by curtailing the activities of the state government or of any one of the political subdivisions of the state.

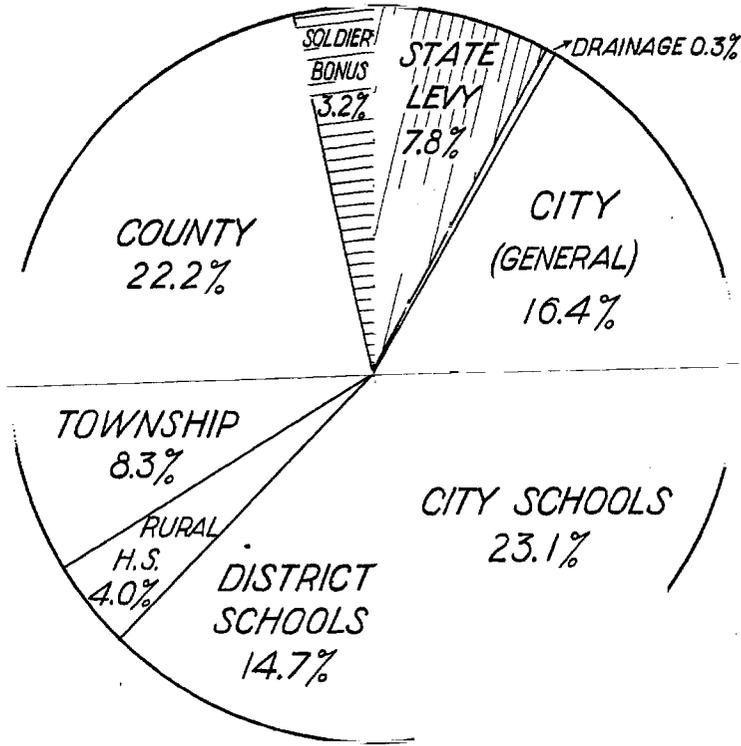


FIG. 5.—“Where the Kansas property tax dollar goes.” Division of property taxes in 1923.

In connection with the distribution of the tax burden it will be of interest to note the approximate portion of the total tax levy borne by each class of property in cities and outside of cities, in 1923. This is shown in figure 6.

TABLE VIII.—Average taxes levied for each fiscal subdivision or public purpose in 1923, by sections of the state, expressed in thousands of dollars and in per cent of total.

FISCAL SUBDIVISION OR PUBLIC PURPOSE.	State total.		Corn belt.		General farming.		Flint hills.		Eastern half of wheat belt.		Western half of wheat belt.		Grazing region.	
	Amt. in thousands.	per cent.	Amt. in thousands.	per cent.	Amt. in thousands.	per cent.	Amt. in thousands.	per cent.						
Total . . . . .	(a)\$75,573	100	\$20,259	100	\$15,785	100	\$8,205	100	\$23,158	100	\$5,370	100	\$2,796	100
State levy . . . . .	\$5,893	7.8	\$1,530	7.8	\$1,106	7.0	\$692	8.4	\$1,992	8.6	\$381	7.1	\$192	6.9
Soldier bonus . . . . .	2,409	3.2	625	3.1	452	2.8	283	3.4	814	3.5	156	2.9	79	2.8
County . . . . .	16,804	22.2	4,212	20.7	3,929	24.8	1,726	21.0	4,741	20.5	1,409	26.3	787	28.1
Township . . . . .	6,252	8.3	1,666	8.2	1,540	9.7	812	9.8	1,594	6.9	484	9.0	156	5.6
Rural high schools . . . . .	3,009	4.0	863	4.3	383	2.4	413	5.3	883	3.8	353	6.6	114	4.1
District schools . . . . .	11,138	14.7	2,142	10.5	2,155	13.6	1,358	16.5	3,221	13.9	1,449	26.9	813	29.1
Drainage . . . . .	246	.3	210	1.0	9	.5	(b)		27	.1				
City, general . . . . .	12,393	16.4	4,116	20.3	2,450	15.5	1,170	14.3	3,833	16.5	547	10.2	277	9.9
City schools . . . . .	17,429	23.1	4,895	24.1	3,761	23.7	1,751	21.3	6,053	26.2	591	11.0	378	13.5

(a) This total is \$45,000 less than the total levy as shown by records of the tax commission. This error (.06 of one percent) is probably due to the fact that average tax rates used in calculating this table were carried out to the sixth decimal instead of the seventh or eighth.  
(b) \$67.00.

**Relief Only Through Tax Revision.**—In concluding this section, let it be emphasized again that the taxpayer has the right to demand economy and efficiency in the use of public funds. At the same time it would be well to remember that a comparison of efforts and results of our legislatures in reducing taxes shows the futility of attempting to bring substantial relief to the taxpayer

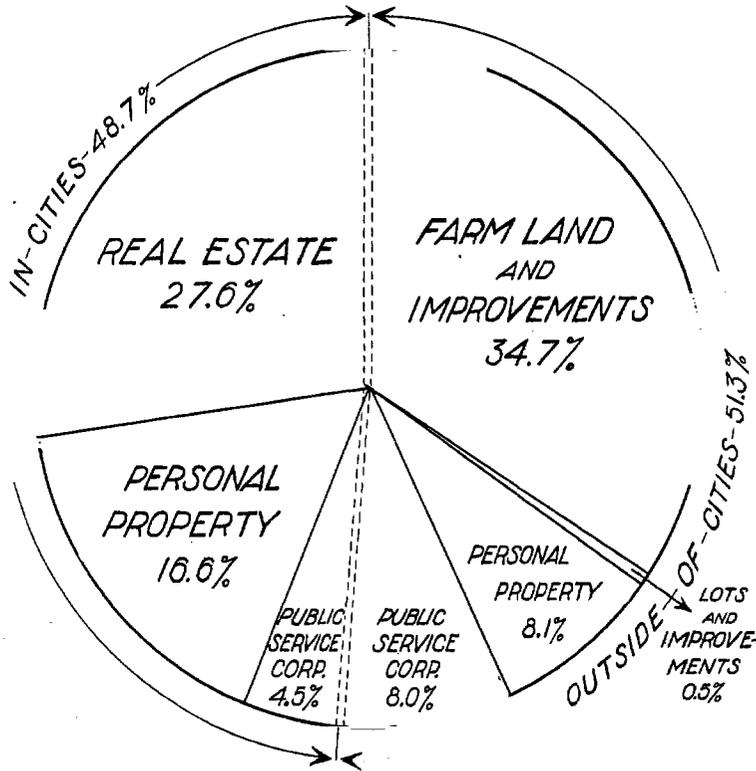


FIG. 6.—“Where the Kansas property tax dollar comes from.” Approximate per cent of the total property tax levy borne by each class of property in cities and outside of cities in 1923.

merely by curtailing appropriations. Relief can come only through a wider and more equitable distribution of the tax burden. This distribution calls for a program of fundamental tax revision, which the writer believes should follow two general lines: First, improvement in property taxation; and second, adoption of new means of raising revenue to supplement the property tax. The first line of tax revision is subdivided into two parts: (1) Improvement in

the system of valuation; and (2) classification of property, especially intangibles, for taxation. The second line is subdivided into four parts: (1) A personal income tax; (2) a gross production tax on oil and minerals; (3) an excise tax on certain nonessentials; and (4) a gasoline tax for roads. Part II of this bulletin is a discussion of this program of tax revision.

## PART II.—A TAX PROGRAM FOR KANSAS,

### V. IMPROVEMENT IN THE VALUATION OF PROPERTY.

Inequalities in the valuation of property are familiar to all students of taxation. For this reason, and because the subject of assessment and equalization in this state is treated more fully in another report of the Kansas Agricultural Experiment Station,<sup>20</sup> only a brief discussion of the valuation of property for taxation will be included in this bulletin.

**Inequalities in Valuation of Real Estate.**— In the investigation of assessment and equalization of farm and city real estate in Kansas, referred to above, an average inequality of 22.5 per cent was found among 7,353 parcels of farm real estate sold in ten counties from 1913 to 1922, inclusive. The average inequality among 3,647 parcels of city real estate in six counties was 19.7 per cent, for the same period. The inequality among all counties in farm real estate was 12.2 per cent as compared with an inequality of only 7.7 per cent among 196 representative townships.

**Small Properties Generally Overassessed.**— There is a strong and general tendency throughout the state to overassess small parcels of real estate and to underassess the larger parcels. This is the case both in farm and in city real estate, as shown in Tables IX and X, respectively.

Owners of small pieces of farm and of city real estate in Kansas pay more than their share of taxes, because of overassessment of their properties. These inequalities became more pronounced during the last ten years.

The most probable causes of overassessment of small properties are: (1) The greater impressiveness of large numbers; (2) the fact that small properties can be examined more closely by the assessor than large properties; (3) the possibility of a greater influence of large property owners over local assessors.

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20. Kansas Agricultural Experiment Station Bulletin 232, "Assessment and Equalization of Farm and City Real Estate in Kansas," July, 1924.

TABLE IX.—Assessed valuation of farm real estate in per cent of sale price, by size groups. (a)

SIZE GROUP.	Number of sales.	Average price per sale.	Assessed valuation in per cent of sale price.
All groups	10,307	\$6,353	65.6
I	1,123	\$1,222	85.7
II	1,920	2,567	76.7
III	1,981	3,993	72.9
IV	1,503	5,533	70.0
V	1,095	6,835	66.4
VI	717	8,662	65.3
VII	587	9,714	62.3
VIII	1,381	16,956	58.7

(a) Based on *bona fide* sales of farm real estate in 15 representative counties over a period of ten years, 1913 to 1922.

TABLE X.—Assessed valuation of city real estate in per cent of sale price, by size groups. (a)

SIZE GROUP.	Number of sales.	Average price per sale.	Assessed valuation in per cent of sale price.
All groups	10,231	\$1,766	73.3
I	1,411	\$176	97.0
II	1,552	483	89.0
III	1,547	519	82.9
IV	924	1,073	80.5
V	1,120	1,242	76.5
VI	1,138	1,703	74.5
VII	1,032	2,496	70.9
VIII	1,487	5,954	69.1

(a) Based on *bona fide* sales of city real estate in 16 representative counties over a period of ten years, 1913 to 1922.

Overtaxation of small parcels of farm land must be a hindrance to farm ownership, and must result in a somewhat lower standard of living on small farms. Overtaxation of small pieces of city real estate may have a depressing influence on home ownership, and probably is a hindrance to wise city planning. Furthermore, this inequality in valuation penalizes investments in small real-estate holdings.

**County Unit Plan of Assessing Property.**—Although perfect equality in the valuation of property for taxation is unattainable, existing discrepancies could in all probability be diminished under an improved system of assessing property. Authorities on state and local taxation generally agree that the county unit plan would be more effective in securing uniform valuation than the present system of valuation by local assessors. This plan has been recom-

mended repeatedly by the State Tax Commission. Experts of the National Tax Association, and other authorities on state and local taxation, have pointed out time and again the faults of the present system and the gross inequalities that result from it.

The Kansas State Tax Commission says, in its report to the 1923 legislature :

“What is needed is the creation of larger assessment districts, so that the varying judgment of a large number of workers may be eliminated. The township is now the unit of assessment, but the best results in the way of equality will be impossible of attainment until the county is made the unit of assessment and a single officer given power to assess all property in the county. In this way only can the assessment reflect the judgment of one person, and in only this way will it be possible to secure what is so necessary in distributing the tax burden properly, *i. e.*, an equalization of the assessment.”<sup>21</sup>

It is not likely that the county unit plan of assessing property would be more expensive than the present system. In fact, it should cost less, because the number of assessing officers would be reduced to a fraction of the present number.

**Likelihood of Greater Equality Under County Unit Plan.—**

There are good reasons to believe that one person in each county, specially qualified for the work of assessing property, would be able to fix more uniform values on individual parcels of real estate than are obtained under the present system. Likewise, he should be able to bring about a more equitable adjustment between large and small properties, so that the small landowner would not be required to bear an important part of the large landowner's taxes.

It is believed that the county officer would be able to fix more uniform values on property, not only because of superior skill and greater opportunity to devote his time to this work, but also because he would be somewhat farther removed from the personal influence of the owners. This would perhaps enable him to do his work more objectively than is possible for the local assessor under the present system.

Data assembled in the investigation referred to above, and reported in bulletin 232 of this experiment station, indicate that the work of the county boards of equalization has been effective in reducing inequalities among townships. Inequalities in the rates of assessment among the townships were found to be considerably less than among counties, less than among individual properties,

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21. Complete recommendations of the tax commission on the county unit plan are found in the eighth report to the legislature by the Kansas State Tax Commission, page 29, and in previous reports of the commission.

and less than between large and small properties. It is perhaps not excessively optimistic to assume that the county unit plan of assessing individual parcels of real estate would tend to produce comparable results.

#### VI. CLASSIFICATION OF PROPERTY FOR TAXATION.

The need for classification of property for taxation is based on fundamental differences in the economic characteristics of property. It is a serious error, though a common one, to consider all forms of property as being the same from the standpoint of taxation. Many inequalities in the distribution of the tax burden and a number of harmful effects of our revenue system on the economic life of the state, result from an attempt to apply the same rate of assessment and taxation to all classes of property.

At this point it may be helpful to mention briefly one or two classifications of property. In one classification all property is designated as real or personal; in another, as tangible or intangible.<sup>22</sup>

**Real Estate is Immobile.**—The most important characteristic of real property, or real estate, is its immobility. Because of this characteristic it cannot be moved out of one taxing jurisdiction to another where laws of taxation are more favorable. Tangible personal property, such as live stock, implements, household goods, etc., is relatively more mobile than real estate. Another characteristic of tangible property, especially real estate, is its visibility. It cannot be hidden from the careful tax assessor.

**Intangible Property is Both Mobile and "Invisible."**—Intangible property has the double advantage of mobility and "invisibility." It can be removed to states where tax laws are more favorable. Since the owner's place of residence determines the situs of personal property, the place where that property is taxable, it frequently happens that the owner moves with his property to a state where the tax laws are less severe. This is the basis of the statement that the present system of taxation in Kansas "drives capital out of the state."

**Authorities on Taxation Support Classification of Property.**—Authorities agree that the various forms of property differ widely in their economic characteristics and that these differences demand recognition in laws of taxation. Only a few typical expressions of this advanced opinion can be quoted here. Prof. Charles J. Bullock, of Harvard University, says:

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22. See footnote 11 for a definition of intangible property.

“The various forms of property fall into certain general and well recognized classes which differ very widely from one another in their nature and economic characteristics. All kinds of property are not equally productive; all kinds of property do not benefit equally from public expenditures; all kinds of property are not similarly situated with respect to interstate or foreign competition, and therefore are not equally able to bear public charges; all kinds of property are not equally tangible or visible, and therefore equally capable of assessment without the cooperation of the taxpayer; and finally, all kinds of property are not equally liable to removal from a given taxing district if property owners feel that the burden of taxation is excessive. For these reasons it is necessary to classify property in a reasonable manner for taxation and to prescribe for each class such methods and rates as its economic character and condition demand.

“The methods and rates of taxation must be adjusted to the requirements of the various classes of taxable objects; no rate upon any class should be higher than can be collected with reasonable certainty; no rate should be so high as to drive out of a community persons or capital or industries; and any rate that exceeds what a class of taxable objects will bear must result in loss of revenue, injury to industry, and such general demoralization as accompanies widespread evasion of law.”<sup>23</sup>

In emphasizing the necessity of classification of property for taxation, the supreme court of the United States has used the following language :

“This court has repeatedly laid down the doctrine that diversity of taxation, both with respect to the amount imposed and the various species of property selected either for bearing its burdens or for being exempt from them, is not inconsistent with a perfect uniformity and equality of taxation in the proper sense of those terms; and that a system which imposes the same tax upon every species of property, irrespective of its nature, condition or class, will be destructive of the principle of uniformity and equality in taxation and of a just adaptability of property to its burdens.”<sup>24</sup>

Beginning with its first report to the legislature in 1909, the Kansas State Tax Commission has repeatedly urged classification of property for taxation. The late Samuel T. Howe, a widely recognized authority on taxation, and chairman of the State Tax Commission from the creation of that body in 1908 till his death in 1922, was an earnest advocate of classification of property. Mr. Howe said:

“All kinds of property are not able to contribute like amounts of tax, and because this is so, much of the tax shirking of the present day occurs. Because of this situation there is need of a classification of property, especially

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23. Statement of Professor Bullock before the Boston Chamber of Commerce, quoted by the Kansas State Tax Commission in its second report to the legislature (1911), pages 15 and 16.

24. The case of *Pacific Express Company v. Seibert*, 142 U. S. 351 (U. S. Supreme Court Reports, Vol. 142, p. 351).

of personalty, so that differential rates may be applied according to the differing economic values of property, and in states where this plan prevails the result has been a largely increased public revenue."<sup>25</sup>

**Attitude of the State Supreme Court Favorable to Classification.**—The legislature has made a number of attempts to meet the problem of double taxation arising from the application of the general property tax rate to mortgages. In 1873 a law was passed exempting mortgages from taxation; but the law did not become operative because the attorney-general held it to be unconstitutional. The law was repealed the following year. In 1909 and in 1911 the legislature passed a mortgage registration fee law, but the governor vetoed the bills both times, upon being advised that the law was unconstitutional. In 1915 the mortgage registration fee law was again passed by the legislature, and was signed by the governor. After considerable litigation the supreme court declared this law repugnant to article 11 of the state constitution, which remained unchanged up to the adoption of the tax amendment at the 1924 election. The supreme court, speaking through Mr. Justice Burch, expressed its attitude on classification of property, in the following language:

"The struggle for tax reform in this state is an interesting story which need not be told here. It has long been recognized that the constitutional provision quoted has outlived its usefulness, and, as outlived restraints usually do, now bars the pathway to the establishment of an equitable system of taxation adequate to the present economic needs of the state."<sup>26</sup>

**Proposals to Amend the Kansas Constitution.**—The two amendments submitted to the voters by the legislature, up to and including 1921, were much broader in scope than the amendment adopted at the 1924 election. This can be shown best by quoting the pertinent part of article 11 of the constitution, upon which the present laws of assessment and taxation largely rest, and the essential parts of the amendment defeated in 1922 and of the amendment adopted in 1924.

Section I, article 11 of the state constitution, prior to the adoption of the amendment, reads:

"The legislature shall provide for a uniform and equal rate of assessment and taxation: but all property used exclusively for state, county, municipal,

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25. From "The Tax Amendment," by Samuel T. Howe, in the Quarterly Report of the Kansas State Board of Agriculture, March 1920.

26. The case of *Wheeler v. Weightman*, 96 Kan. 42 (Kansas Supreme Court Reports, volume 96, page 42).

literary, educational, scientific, religious, benevolent and charitable purposes, and personal property to the amount of at least two hundred dollars for each family, shall be exempted from taxation.”

The principal part of the amendment defeated at the polls in 1922 reads :

“The legislature shall have power to establish and maintain a just and equitable system for raising state and local revenue, and may classify the subjects of taxation in order to secure a just return therefrom, and may exempt property, when the public welfare will be benefited thereby.”

The part of the amendment adopted in 1924, pertinent to the subject of classification, reads:

“The legislature shall provide for a uniform and equal rate of assessment and taxation, except that mineral products, money, mortgages, notes and other evidence of debt may be classified and taxed uniformly as to class as the legislature shall provide.”

It should be noted that the amendment adopted at the 1924 election does not give the legislature any new power over real estate and tangible personal property, except mineral products. Had either of the former amendments been adopted the legislature would have had the power to classify all taxable property.

**The Fear of Giving “Too Much Power to the Legislature.”**— One probable reason for the defeat of former efforts to amend article 11 of the state constitution was the belief of many voters that those amendments would have given too much power to the legislature, and that the authority of the legislature to classify property would have given organized lobbies a greater opportunity to impose their views upon the legislators for the purpose of securing special advantage for group interests. This objection was frequently raised against the amendment adopted at the last election, 1924. The writer does not share in any such mistrust of our lawmakers. On the contrary, he holds not only that the citizens of the state can trust the legislature, but also that they must trust it. To refuse to trust the legislature, especially in such vital matters as taxation, is equivalent to saying that representative government is a failure. It seems more reasonable to believe that a legislature backed by an enlightened citizenry, sufficiently interested in the affairs of government to study public questions and to exercise the right of franchise, will enact wiser laws than a legislature hampered by a rigid and outlived constitutional restraint.

As already stated, the tax amendment adopted at the 1924 election gives no new power to the legislature with respect to real estate and tangible personal property, except mineral products. The writer be-

lieves that the earlier amendments, which would have enabled the legislature to classify all taxable property, were preferable to the amendment just passed. Nevertheless, the present amendment meets the major needs that would have been met by the previous amendments, for it authorizes classification of intangibles, which are the class of property most in need of classification. The fact that this amendment gives much less power to the legislature than the previous measures would have given is probably one reason why it was adopted by a majority of 53,691 votes.<sup>27</sup>

**General Property Tax on Intangibles Defeats Its Purpose.—**

The purpose of our laws of taxation is to raise revenue, but the general property tax applied to intangible property, fails to accomplish this purpose. Everyone knows that an advance in the price of a commodity will reduce sales, assuming that demand is unchanged. A merchant could ruin his business by arbitrarily advancing the price of his goods. In other words, it is possible to charge more than the traffic will bear. The same is true in taxation. When rates are beyond what the traffic will bear, they “dry up” the source of revenue. Experience in other states indicates that the present tax rate on intangible property in Kansas is now above what the traffic will bear, and that this class of property would yield more revenue at a lower rate.

**Futility of Attempting to Force Intangibles on the Tax Roll.**

—It is sometimes insisted that all property should be taxed alike, and that intangibles should be “forced on to the tax rolls.” This point of view is based on a wholly inadequate appreciation of the practical problems involved in taxing intangible property. Experience everywhere shows that money, credits, and other intangibles cannot be forced on the tax rolls and subjected to the high rate of the general property tax. Such practice results in much evasion of the law and little revenue from this class of property. Furthermore, it imposes a penalty on resident investors, and capital is forced to seek investments elsewhere. Thus, considerable amounts of capital are driven out of the state, to the detriment of agriculture and of industry. It is difficult to conceive of a system more unfavorable to those who would regularly save and invest a small part of their earnings. In many of the cities of Kansas taxes take half, and in some places all, of the interest on savings accounts. Such a system penalizes thrift and puts a premium on spending. This is the case

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27. The principal reason for the success of the tax amendment at the polls in 1924 is that this amendment received more publicity and more organized support than previous amendments received.

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in Kansas under the present system, a system that will no doubt be changed for the better as a result of the adoption of the tax amendment.

**Increase in Revenue from Intangibles at Lower Tax Rate.—**

Important results of classification of intangible property have been obtained in Minnesota, as shown in Table XI. In 1910 the tax rate was 28 mills. The three-mill rate on intangible property came into effect in 1911. Table XI shows that classification and the reduction of the tax rate to three mills per dollar resulted in a great increase in the number of persons taxed, in the amount of intangibles reported for taxation, and in total revenue derived from this class of property.

TABLE XI.—Effect of a reduction in the rate of intangible property on the number of persons assessed, total assessment, and amount of revenue in Minnesota. (a)

YEAR.	Rate, mills per dollar.	Number of persons assessed.	Assessment.	Revenue.
1910 (b)	28	6,200	\$18,919,806	\$379,754
1911	3	41,439	115,481,807	346,445
1912	3	50,564	135,369,314	406,107
1913	3	57,068	156,969,892	470,909
1914	3	73,266	195,549,307	589,644
1915	3	73,062	212,134,901	636,404
1916	3	74,219	234,186,268	702,558
1917	3	87,688	284,968,875	854,907
1918	3	98,502	330,300,219	990,900
1919	3	109,215	359,798,976	1,079,399
1920	3	127,471	437,628,871	1,312,886
1921	3	118,846	424,816,226	1,274,449
1922	3	109,081	400,688,948	1,202,066
1923	3	115,496	417,030,342	1,251,091

(a) "Assessment and Equalization," chapter V of the eighth biennial report of the Minnesota Tax Commission, page 24.  
(b) Last year under old law.

The following data from the city of Baltimore, as the Minnesota figures, show that a reasonably low rate of taxation results in greater total assessment of intangibles and more revenue from this class of property :

Year.	Rate mills per dollar.	Assessment.	Revenue.
1896	21.75	\$6,000,000	\$130,550
1897	4.75	58,703,795	278,843

**Classification of Intangibles Should Reduce Tax Burden on Other Property.—**

The demmonstrated failure of the general property tax to reach intangibles, and the fact that classification and a lower rate of taxation have resulted in more revenue from this property, is a reason why owners of real estate and other tangible property might well favor classification of intangibles. Additional revenue that might be derived from this class of property, at a rea-

sonable rate would reduce the burden on the property which now bears the cost of state and local government. Every additional dollar of revenue obtained from intangibles would not have to be collected from other sources.

**Effect of Classification on the Rate of Interest.**—Another reason in favor of classification of intangibles is that it would provide a better opportunity for Kansas investors. Taxes would not absorb such a large share of the returns from investments reported to the assessor. Furthermore, experience elsewhere indicates that capital would become available to productive enterprises at a lower rate of interest. Our present tax laws drive capital out of the state and help to maintain a high rate of interest on loans. The Tax Commission of Kentucky says:

“Since the adoption of the present revenue law in Kentucky, which provides for a classification of property for the purpose of taxation, the bank deposits have increased wonderfully and the rate of discount in the banks of Kentucky is now 6 per cent. Before the adoption of the present law, in many counties and some of the large cities as much as 8 per cent was charged because of the scarcity of available funds.”<sup>28</sup>

**Present System Results in Double Taxation.**—Still another reason for classification is that the present high tax rate on intangible property in Kansas results in severe double taxation. The owner of a mortgaged property now pays the general property tax once on the whole property and again on the mortgaged portion of it. As shown above, the legislature has been unsuccessful in alleviating double taxation by a mortgage registration fee law. But relief can be had from double taxation, arising out of the present system of taxing both the mortgage itself and the mortgaged property, by appropriate laws which the legislature is authorized to enact under the recently adopted tax amendment to the constitution.

**Classification Would Not Take Revenue Out of Local Taxing Districts.**—The opinion is sometimes expressed that revenue derived from classified intangibles would be paid to the state treasury and would be “lost” to the local taxing district where the property is located. This is an erroneous opinion. Revenue from classified intangible property can be distributed among the local taxing units according to some specified ratio. In fact, it is so distributed in other states that have classification of property. For example, Minnesota divides the revenue obtained at three mills on the dollar of intangibles, as follows: One-sixth to the state, one-sixth to the

28. Letter to the writer, March 7, 1923.

county, one-third to the city, village or town, and one-third to the school district in which the property is assessed.<sup>29</sup>

The constitution of Kentucky gives the legislature power to "divide property into classes and to determine what class or classes of property shall be subject to local taxation." Accordingly, the legislature has enacted a law making all intangible property, with minor exceptions, subject to taxation for state purposes only.<sup>30</sup> But no such provision is found in the constitution of Kansas. It is, therefore, erroneous to assume that classification of intangible property in Kansas would inevitably result in a withdrawal of the revenue from local taxing districts.<sup>31</sup>

**Summary of Reasons Why Kansas Needs Classification.**— Kansas needs classification of intangible property for at least five reasons: (1) To put more intangible property on the tax rolls where the total volume of it would bear a larger part of the cost of government than it now bears; (2) to stimulate saving by removing the oppressive tax on small investments; (3) to provide better opportunity for residents of Kansas to invest their money in this state; (4) to aid in developing Kansas agriculture and Kansas industries by making more capital available for productive enterprises at a lower rate of interest; and (5) to help solve the problem of double taxation.

#### VII. PERSONAL INCOME TAX.

It is in accordance with a fundamental principle of public finance that every person having ability to pay taxes should contribute to the support of the government under which he lives and from which he receives protection and personal benefits through public institutions. A personal income tax in Kansas would help to distribute the tax burden, for it would require those who derive substantial incomes only from sources other than taxable property to bear a part of the cost of state and local government.

In Section III it was shown that two changes in the economic life of Kansas during the last fifty years are of special significance in relation to a program of tax revision. One of these changes is the increase in the number of persons who derive their income from sources other than property. Under the present system of taxation

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29. Section 13, chapter 285, Laws of Minnesota, 1911.

30. Paragraph 4019a-10, Kentucky Statutes, 1922.

31. Where the revenue from a specified class of property is paid into the general revenue fund of the state, it is not altogether "lost" to the local taxing district, because this flow of revenue into the state treasury makes it possible to reduce the state levy on other property.

in this state they do not contribute to the support of government in proportion to their ability. But they, as well as owners of taxable property, receive the benefits of government; their children are educated in the public schools; the public health service confers benefits upon them; and public improvements of all kinds are at their disposal. The present law does not attempt to reach their taxable capacity. Consequently, the rising cost of state and local government falls with increasing severity on owners of tangible property. This situation justifies—in fact it demands—a personal income tax as a part of a program for a more equitable distribution of the tax burden.

**Income Tax Levied on Persons.**—The income tax should be levied on every resident of the state. But in the enforcement of the law, not everyone would be required to pay the tax, since those having small incomes would be exempt. The income tax here suggested is based on a measure recommended by a committee of experts appointed by the National Tax Association to prepare a plan of a model system of state and local taxation. In its preliminary report the committee says in part:<sup>32</sup>

“By this (the personal income tax) is meant a tax levied upon persons with respect to their incomes, which are taxed not objectively as incomes but as elements determining the taxable ability of the persons who receive them. This tax is better fitted than any other to carry out the principle that every person having taxable ability shall make a reasonable contribution to the support of the government under which he lives. It is as fair in principle as any tax can be; under proper conditions, it can be well administered by an American state, as Wisconsin, Massachusetts and New York have proved; it is a form of taxation which meets with popular favor at the present time, and therefore seems to offer the line of least resistance. The committee, therefore, is of the opinion that a personal income tax is the best method of enforcing the personal obligation of the citizen for the support of the government under which he lives, and recommends it as a constituent part of a model system of state and local taxation.

“Since the purpose of the personal income tax is to enforce the obligation of every citizen to the government under which he is domiciled, it is obvious that this tax must be levied only upon persons and in the states where they are domiciled. It is contrary to the theory of the tax that it should apply to the income from any business as such, or apply to the income of any property as such. The tax should be levied upon persons in respect of their entire net income, and should be collected only from persons and at places where they are domiciled. It should not be collected from business concerns, either incorporated or unincorporated, since such action would defeat the very purpose of the tax.”

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<sup>32</sup>. Proceedings of the twelfth conference of the National Tax Association (1919), pages 437 and 438.

The model law prepared by a committee of the National Tax Association was similar in many important respects to the federal income tax law. It is especially desirable that provisions relating to "gross income," deductions in arriving at "net income," and "exemptions" in federal and state income tax laws should be as nearly alike as practicable. Such similarity would greatly facilitate the computation of taxable income and spare the taxpayer much duplication of effort.

**Principal Provisions of Proposed Tax.**—The following is a summary of the principal provisions of the suggested personal income tax:

*Persons Taxed.*—The tax is levied only on persons residing within the state.

*Taxable Income.*—Although the tax is levied on persons, the amount of net income above exemptions is taken as the measurement of their ability to pay. Net income is defined substantially as a good accountant would define it.

*Exemptions.*—It is recommended that the following exemptions be deducted from the net income:

1. In the case of a single individual having no dependents, a personal exemption of \$1,000.
2. In the case of the head of a family, a personal exemption of \$2,000. Husband and wife living together should receive but one personal exemption of \$2,000 against their aggregate net income. If they make separate returns, this exemption may be taken by either or divided between them.
3. An exemption of \$200 for each dependent (other than husband or wife).

*Rate of Taxation.*—The rate of taxation should be progressive, the progression depending on the amount of the person's taxable income. The following rates are recommended on the taxpayer's entire net income after deducting the exemptions suggested above:

- On the first \$1,000 of net income or any part thereof, 1 per cent.
- On the second \$1,000 of net income or any part thereof, 2 per cent.
- On the third \$1,000 of net income or any part thereof, 3 per cent.
- On the fourth \$1,000 of net income or any part thereof, 4 per cent.
- On the fifth \$1,000 of net income or any part thereof, 5 per cent.
- On all net income in excess of \$5,000, 6 per cent.

**Administration Should Be Centralized.**—A detailed statement of the administration of a personal income tax law is beyond the scope of this bulletin. Much good material on the subject is found

in the proceedings of the National Tax Association and elsewhere. Suffice it to say here that the administration of the state income tax law should be centralized in a state authority, preferably in the tax commission. This administrative body should be equipped with ample legal authority, sufficient resources, and an able personnel to carry out the provisions of the law. The committee of experts of the National Tax Association recommends centralized administration:

“No argument can be needed by the National Tax Association to support our recommendation that the administration of the personal income tax should be placed in the hands of state officials. This we regard as an indispensable condition for the successful operation of any state income tax, and we should be disinclined to recommend the adoption of an income tax by any state that is unwilling to turn over its administration to a well organized and properly equipped state department. Local administration of an income tax has never worked well, and, in our opinion, never can operate satisfactorily. It is obvious finally, that a state tax commission, or commissioner, is the proper agent to administer the proposed tax; and we desire to record our belief that satisfactory results are hardly to be expected if the administration is turned over to any other state officials. Upon this whole question of administration, which is of the most vital importance, we are fortunate in being able to rely upon the authority of the opinions repeatedly expressed by the conferences of the National Tax Association. We are glad also to point to the experience of Wisconsin, Massachusetts and New York.”

**Probable Amount of Revenue.**—The exact amount of revenue which the proposed income tax would yield cannot be determined in advance; but the approximate amount can be calculated on the basis of statistics of income published by the United States Bureau of Internal Revenue. Table XII shows the taxable personal income by income classes in Kansas for 1921, the last year for which statistics of income are available. The taxable income, as given in this table, was determined by deducting the personal exemptions in each class from the net income.

In calculating the probable amount of revenue which the proposed tax would have yielded in 1921, it was necessary to divide the total taxable income in each income class into the amount subject to each of the six tax rates. The total of each column in Table XII, times the corresponding rate, gives the amount of revenue from the taxable income subject to each rate. These revenues amounted to \$1,592,000, the probable sum which the proposed income tax would have yielded in Kansas in 1921. But it is not improbable that it would yield \$2,000,000 annually, in normal times, (1) because 1921 was not a normal year in Kansas from the standpoint of personal

TABLE XII.—Probable revenue under the proposed personal income tax in Kansas, by income classes. (a)

INCOME CLASSES.	Number of returns.	Net taxable income (b) (000 omitted).	Taxable income subject to each rate (000 omitted).						
			1%	2%	3%	4%	5%	6%	
Under \$1,000.....	9,798	(c)							
Under \$1,000.....	85	\$47	\$47						
\$1,000 to \$2,000.....	14,796	(c)							
\$1,000 to \$2,000.....	17,150	8,082	8,082						
\$2,000 to \$3,000.....	22,026	(c)							
\$2,000 to \$3,000.....	6,689	6,098	6,098						
\$3,000 to \$4,000.....	2,848	(c)							
\$3,000 to \$4,000.....	6,011	6,459	6,011	\$448					
\$4,000 to \$5,000.....	419	102							
\$4,000 to \$5,000.....	4,213	7,314	4,213	3,101					
\$5,000 to \$6,000.....	1,523	4,612	1,523	1,523	\$1,523				
\$6,000 to \$7,000.....	909	3,683	909	909	909	\$43			
\$7,000 to \$8,000.....	553	2,830	553	553	553	553	\$47		
\$8,000 to \$9,000.....	370	2,255	370	370	370	370	370	\$65	
\$9,000 to \$10,000.....	264	1,888	264	264	264	264	264	264	\$68
\$10,000 to \$11,000.....	191	1,582	191	191	191	191	191	191	\$47
\$11,000 to \$12,000.....	130	1,197	130	130	130	130	130	130	\$47
\$12,000 to \$13,000.....	124	1,262	124	124	124	124	124	124	\$47
\$13,000 to \$14,000.....	114	1,281	114	114	114	114	114	114	\$47
\$14,000 to \$15,000.....	93	1,125	93	93	93	93	93	93	\$47
\$15,000 to \$20,000.....	238	3,566	238	238	238	238	238	238	\$47
\$20,000 to \$25,000.....	94	1,890	94	94	94	94	94	94	\$47
\$25,000 to \$30,000.....	64	1,577	64	64	64	64	64	64	\$47
\$30,000 to \$40,000.....	41	1,309	41	41	41	41	41	41	\$47
\$40,000 to \$50,000.....	23	962	23	23	23	23	23	23	\$47
\$50,000 to \$60,000.....	7	375	7	7	7	7	7	7	\$47
\$60,000 and over.....	12	557	12	12	12	12	12	12	\$47
Total taxable income in thousands.....	88,785	\$60,353	\$29,303	\$8,299	\$4,750	\$3,270	\$2,365	\$12,366	
Total revenue in thousands.....		\$1,593	\$293	\$166	\$143	\$131	\$118	\$742	

(a) Adapted from statistics of personal income for 1921, published by the United States Bureau of Internal Revenue.

(b) Net income less personal exemptions.

(c) Personal exemptions exceed net income.

income, and (2) because the state income tax would reach the income of officials and employees of the state and of the local governments.

**Incomes in 1921 Probably Below Normal.**—It is assumed that personal income in Kansas in 1921 was below normal mainly because of the agricultural depression. Low purchasing power of farm products since 1920, reduced the net income of farmers and of those who depend largely on the rural population to purchase their goods and services. The following figures show the number of income tax returns, the total net income and the average income per return in Kansas by years, 1917 to 1922:

Year.	Number of returns.	Total net income.	Average income per return.
1917.....	63,065	\$202,159,002	\$3,206
1918.....	64,794	218,524,054	3,373
1919.....	76,451	264,971,649	3,466
1920.....	99,255	306,413,429	3,087
1921.....	88,785	217,237,297	2,447
1922.....	86,915	211,061,984	2,428

It is perhaps as correct to assume that net income was abnormally high in 1919 and 1920 as to assume that it was below normal in 1921 and 1922. It can be predicted with a reasonable degree of certainty that a return of normal prosperity in Kansas agriculture will raise net personal incomes above the 1921-'22 level.

—The second reason for assuming that the revenue from the proposed state income tax would exceed the figure given in Table XII is that salaries of officials and employees of the state and of local governments would be taxable. Their salaries and wages are not subject to the federal income tax and therefore not included in the data compiled in Table XII. This increase in taxable income would be offset in part by the fact that salaries of employees of the national government, who pay federal income taxes in Kansas, would not be taxable under the proposed state law. But there should be a net increase in the total taxable income, since the state and local employees are more numerous than the federal employees in the state.

There are those who believe that salaries of public officials and employees should not be subject to income taxation. This belief is based on the assumption that, when the state levies a tax on persons because of salaries drawn from the public treasury, the state is in effect taxing itself, since the levying of this tax would make it necessary to pay those persons higher salaries in order to

obtain their services. This assumption is based on purely theoretical rather than practical grounds. Any appearance of validity which it may have will disappear as other states resort to income taxation, particularly if a high degree of uniformity should be attained in state income tax laws. It is difficult to conceive of a valid reason why salaried persons in the public service should not make direct contribution, on the same basis as other citizens, to the government under which they live.

**Ability to Pay Not Always in Proportion to Income.**— Present systems of taxation are based largely on the principle that taxes should be levied according to ability to pay, but perfect compliance with this principle is probably unattainable. All that public policy can do is to aim to reduce inequalities to a minimum.<sup>33</sup> Ability to pay taxes is not necessarily in proportion to the amount of income, regardless of its source. It is sometimes assumed that a person receiving a certain salary, say \$3,000 a year, is fully as able to pay taxes as the person whose property yields him \$3,000. This is incorrect because a person whose income is derived from property has more security; he can face the future with greater certainty. In case of illness, his income probably would continue, while that of the salaried person or of the wage earner would stop if he should become unable to work. It would cost the salaried person and the wage earner a large part of their income to carry insurance that would give them and their dependents the protection that property gives. Furthermore, their right to the jobs on which their income depends, is not as adequately protected by law as is the property owner's right to his accumulated wealth.

**Income Tax Equivalent to Small Property Tax.**— The proposed income tax is comparable to a small property tax. To illustrate, assume a salary of \$7,500, which is net income large enough to be subject to the highest income tax rate under the proposed law. Assume also that this is the income of a family of four, consisting of husband, wife, and two dependent children. The family would be entitled to an exemption of \$2,400, leaving a taxable income of \$5,100. This sum would be subject to a tax of 1 per cent on the first \$1,000, or \$10; 2 per cent on the second \$1,000, or \$20, etc., up to 6 per cent, which would be levied on the last \$100 of the taxable income. In this case, the total income tax would amount to \$156.

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33. The benefit principle of taxation—taxes levied according to benefits received from government—will probably assume relatively more prominence in the fiscal systems of American states in the future. A tendency in this direction seems both probable and desirable on account of the expanding service functions of government.

To continue the illustration, assume an income of \$7,500 from investments in farm real estate in Kansas. Real estate yielding \$7,500 annually would be worth \$125,000 if the income were capitalized at 6 per cent. This assumption is conservative, since investments in real estate rarely yield 6 per cent. Suppose also that this property is assessed at 65.6 per cent of full value, which was the average rate of assessment of farm real estate in 15 counties in Kansas for the 10-year period 1913 to 1923. At this rate, the assessed valuation of real estate, having a full value of \$125,000, would be \$82,000. The average tax rate on farm real estate in Kansas in 1923 was about \$0.01507 per dollar of assessed valuation. The tax levy at this rate on a valuation of \$82,000 would be \$1,235.74, which is \$1,079.74 more than the income tax on a family of four having an income of \$7,500. The fact that the property owner would pay a much heavier tax, in proportion to his net income, than would be paid by the salaried person probably counterbalances the superior economic security of the property owner.

**Income Tax Would Reduce Property Taxes.**—It may seem to property owners that the proposed income tax would require them to pay income taxes in addition to property taxes. This would be the case in years when their net income exceeds exemptions. But the important fact is that the income tax would reduce their property tax levy because, under the income tax, many persons who now pay little or no tax would be required to bear a part of the cost of government. Under the present system property owners bear nearly the whole burden, while a privileged class, whose number is being constantly augmented, escapes taxation.

The property tax levy in Kansas in 1923 was \$75,600,000, in round figures. A revenue of \$2,000,000 under the income tax would have reduced property taxes 2.65 per cent, assuming the same public expenditures. This reduction would have been a clear gain to all property owners whose exemptions would have equaled or exceeded their net income. All those whose state income tax would have been less than the reduction in their property taxes, would also have been benefited to the extent of the difference between their income tax and the reduction in the levy on their property.

**Farmers Now Pay Heavier Taxes Than Others.**—Farmers pay heavier taxes in proportion to their income than other people.<sup>34</sup>

<sup>34</sup> National Industrial Conference Board, Research Report No. 64, page 33. According to this authority, farmers paid 17.2 per cent of their income in taxes in 1921, compared to 15.7 per cent of the income of other people. The corresponding figures for 1922 were: farmers 16.6 per cent and other people 11.9 per cent.

Many farmers would no doubt be required to pay a state income tax under the proposed law, but only in years when their income exceeds exemption. Under the present system they are not exempted from property taxes in years when low prices, crop failures or other causes deprive them of net income. But they would be exempted automatically from the income tax, in years when they have no income above personal exemptions. At the same time their property taxes would be lower because others who have not suffered crop failure or business adversity, and those who receive salaries, would contribute to the support of state and local government. The income tax tends to adjust itself automatically to the taxable ability of the taxpayer. It is paid only by those whose net income exceeds exemptions. But the assessed valuation of property changes very little, if at all, as a result of variations in net income. Every farmer in Kansas knows that the assessed valuation of his land, buildings, and equipment was not reduced during the agricultural depression in proportion to the drop in net income from his farm. With the increasing requirements of government, the property tax does not "ease up" with a sudden drop in net returns from property.

**Income Tax Successful in Other States.**— The income tax has been successful in other states, notably in Wisconsin, Massachusetts, and New York. The following statement concerning the Wisconsin income tax is quoted from the *National Income Tax Magazine*:

"As a revenue-producer the Wisconsin income tax law has far exceeded even the fondest hopes of its staunchest backers. Its success has rooted it deep in the Wisconsin tax system. It will remain a part of such system; the state will never relinquish this comparatively inexpensive and effective means of raising revenue."<sup>85</sup>

**Probable Constitutionality of an Income Tax in Kansas.**— In view of the fact that article 11 of the state constitution required uniformity in taxation, and since the constitution as amended at the 1924 election does not strengthen the authority of the legislature to levy income taxes, it has been, and still is, in the minds of many, a serious question whether an income tax law would be constitutional in Kansas. The inference of litigation in other states in recent years has made it highly probable that an income tax in Kansas would be constitutional, since it would not be a tax on property. The problem of constitutionality and the principles that have been established in cases that have arisen in other states, are best stated by the Kansas State Tax Commission in its seventh report to the

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85. "What is Ahead in Wisconsin Income Taxation," by Henry B. Nelson, *The National Income Tax Magazine*, February, 1923.

legislature, in which the commission recommends the enactment of an income tax law. The commission says:

“When a state income tax is under consideration the first proposition to be seriously considered is whether that constitution of the particular state in which the question is raised permits the legislature to pass a state income-tax law.

“For some time it was thought that a constitution which provided that taxation must be uniform, equal and proportional prohibited the enactment of a state income-tax law, and for this reason some states which now have such laws amended their constitutions as a necessary preliminary.

“At the present time the question of state income taxes is very prominent among the states and has received a good deal of attention, with the result that litigation has arisen in some of the states whereby certain propositions in respect of the tax may now be considered as having been approved by the federal and some state courts of last resort.

“The principles seemingly established by weight of authority are as follows:

(a) A tax on incomes is not a tax on property, and a tax on property does not embrace incomes.

(b) An express grant of authority in constitutions to enact income-tax laws is unnecessary.

(c) Income is not property in the sense that it would violate a constitutional requirement that a uniform tax be laid on all property.

(d) Lack of uniformity, resulting from progressive taxation, is not a denial of the ‘equal protection of the laws.’

(e) Differentiation among corporations, partnerships and individuals does not make tax invalid.

(f) A law which discriminates between resident and nonresidents will not be sustained by the federal courts.

(g) A state may tax income derived by its own citizens from bonds or indebtedness of other states.

(h) But cannot tax income from its own bonds when the bonds were issued under laws which exempt them from property taxation.

(i) Salaries of federal officers cannot be taxed by a state.

(j) The constitutional prohibition of a change in salary of state officers during term of office exempts from state income tax for the time being,

(k) Salaries should be taxed when not repugnant to the constitution.

(l) Exemption in incomes below fixed sum sustained.

(m) General policy to be settled by legislature; so-called details of legislation may be left to administrative officers.

(n) Deduction of taxes paid upon property may be allowed, the income from which property is reported.

“It would seem that a proper conclusion from the premises is that in most, if not all, of the states a state income-tax law will not be repugnant to the constitution.

“The proposed tax is not a property tax; but is a tax against the person or the citizen, the same as is a poll tax.”<sup>36</sup>

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36. Seventh report by the Tax Commission to the legislature (1921), pages 50 to 51.

VIII. GROSS PRODUCTION TAX ON OILS AND MINERALS.

A tax on the privilege of extracting oil, natural gas, coal and minerals in Kansas would be a proper and fruitful source of revenue. Millions of dollars' worth of these natural resources are extracted annually, from the deposits in this state. Kansas was endowed by nature with this unreplaceable wealth, and a portion of it could justly and easily be taken for public purposes by a tax on the gross value of these products at the points of production. Such a tax would reduce materially the burden now borne by tangible property.

**Probable Annual Revenue, \$2,700,000.**—Table XIII shows the amount and the value of oil, gas and minerals produced in Kansas in 1921. The tax rate used in calculating the probable revenue under the proposed gross production tax is the same as under the Louisiana severance tax law, which levies a tax of 3 per cent on the gross value of oil and gas and 2 per cent on the gross value of all other specified natural products.<sup>37</sup> Table XIII shows the probable revenue from each specified product at these rates. On this basis, a gross production tax in Kansas would yield a gross revenue of about \$2,700,000 annually.

**Minerals not Replaceable.**—As a form of wealth, mineral and oil deposits differ widely from farm land. With the aid of a sound agricultural policy, including good farm organization and management, farm land not only remains productive, but its productivity can be increased by crop rotation and proper balance of cash crops and live stock so that it will continue to yield wealth for future generations indefinitely.

Both mineral deposits and agricultural land are a gift of nature; but mineral deposits are different in that they disappear in the use of them, and cannot be made to yield continuously. Use means exhaustion, as mineral deposits removed from the soil can never be replaced. This gives to these natural resources a distinct public interest. A function of government with respect to them is to prevent wasteful exploitation, by means of conservation policies, and to appropriate a portion of this wealth for public use by a suitable system of taxation.

**Production Tax in Accord with Conservation.**—There are those who believe that a special land tax should be applied to mineral lands. But this point of view encounters the practical difficulty

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37. Act 140, Louisiana legislature, 1922.

TABLE XIII.—Oil and mineral production in Kansas in 1921, and probable revenue under proposed tax. (a)

PRODUCT.	Unit of measurement.	Amount.	Value.	Value in per cent of total.	Proposed tax rate (in per cent of gross value (b).	Revenue.
Petroleum.....	Barrels.....	36,456,000	\$68,694,000	69.7	3	\$2,060,820
Natural gas.....	M cu. ft.....	15,717,000	7,382,000	7.1	3	221,460
Coal.....	Net tons.....	3,466,641	13,333,300	13.6	2	266,666
Salt.....	Short tons.....	665,968	3,268,661	3.4	2	65,373
Lead.....	Short tons.....	18,679	1,681,110	1.7	2	33,622
Zinc.....	Short tons.....	36,994	3,699,400	3.8	2	73,988
Stone.....	Short tons.....	378,680	675,145	.7	2	13,502
Total.....			\$98,733,616	100.0		\$2,735,431

(a) Data compiled from published reports of the United States Geological Survey.  
 (b) Rates the same as under the Louisiana severance tax law.

that it is impossible to appraise, in advance of extraction, the true value of oil and mineral deposits in the land. Value based on a mere guess is elusive and highly speculative. The selling value of the land would be reduced through capitalization of any special land tax; and assessed valuation, which is supposed to be based on selling value, would eventually be reduced in proportion. Thus, selling value of land, based on supposed mineral content, would recede or disappear if an effort were made to take a part of it for public use by heavier property taxation in the form of a special land tax.

Even if it were possible to determine the value of mineral deposits in advance of extraction, a special property tax on that value would be contrary to a policy of conservation of natural resources. Such a tax would encourage premature exploitation, since it would induce owners of the land to extract oil and minerals in order to get income out of which to pay the tax. On the other hand, a gross production tax levied on the value of mineral products when they are extracted from the ground, would discourage premature exploitation, especially of the less productive deposits, and thus promote conservation.

**Production Tax Recommended by Kansas Tax Commission.**

—A production tax on oil and minerals has been urged repeatedly by the Kansas tax commission. In its eighth report to the legislature, the commission says:

“It might be well claimed that the public has such an interest in the mineral resources of the state as would justify a demand for legislation to conserve the minerals in the interest of the general public; but as private appropriation in great quantities of these mineral products is legally permitted, the proposition seems to admit of no denial that the public should share to some reasonable extent in the resulting profits.

“In the oil and gas fields of the state hundreds of thousands of dollars’ worth of commercial value springs up in a night, and little of this value has heretofore contributed anything to the public treasuries. The privileges enjoyed by the appropriators of mineral values are protected as property rights by the law of the state, and the courts are used to conserve these rights. Certainly the state should have some suitable return to compensate for the protection given and also a proper share in the results of this appropriation of mineral values.”

**Production Tax Recommended by Governors Allen and Davis.**—Individual leaders of public affairs in Kansas, irrespective of party affiliation, have advocated the gross production tax. Both Governor Henry J. Allen and Governor Jonathan M. Davis recommended it in their messages to the legislature.

Governor Allen said in his message to the legislature on January 12, 1921:

“Our neighboring state on the south secures from this form of taxation (the gross production tax) an annual revenue of four and one-half million dollars. A tax upon the same basis would give to this state a revenue of something like three million dollars, or practically half of the legislative appropriations for the expenses of Kansas government for a year. The tax which Oklahoma fixes is so small relatively that it does not become a burden upon either the producer or the public.”

Governor Davis said in his special message to the legislature on February 13, 1923:

“I also wish to urge upon you, as a just and proper tax, and a way to lighten the present burden of taxation upon industry, business, farms and homes in Kansas, the enactment of a production tax upon oil, gas, coal and other mining mineral and forestry products. This is a proper source of revenue that has been long neglected in Kansas, but a reasonable tax could very justly be levied that would distribute the benefits of these great natural resources of this state in this manner.”

**Not a “Swat-the-Rich” Tax Program.**— The writer does not believe in a “swat-the-rich” tax program, nor does he begrudge the prosperity of oil and mining interests. At the same time he is unable to subscribe to the allegation that a tax on the privilege of extracting petroleum and mineral products would inflict a great hardship on these industries.

In section II, subdivision 3, of this bulletin it was shown that agriculture has been at a serious disadvantage in recent years and that delinquent taxes on farm real estate increased 354 per cent in 27 Kansas counties from 1917 to 1922. The average tax per acre of farm land in Kansas increased 132 per cent from 1913 to 1923, while the sale value increased only 28 per cent.<sup>38</sup> In the meantime the extractors of petroleum prospered.<sup>39</sup> According to data compiled by the federal trade commission, the Standard Oil companies of California, Indiana, Kansas, Kentucky, New Jersey, New York and Ohio declared a stock dividend of \$806,300,000 in 1922. Of this amount the Standard Oil Company of Kansas alone declared a stock dividend of \$6,000,000.<sup>40</sup>

**Production Tax on Minerals in Other States.**— Taxation of oil and minerals, substantially as recommended for Kansas in this bulletin, has been successful in other states. In this connection, it

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38. See Table VII and figure 4.

39. Petroleum was about 70 per cent of the gross value of the oil and the minerals removed from Kansas deposits in 1921. See Table XII.

40. Data published in the *New York Times*, January 14, 1923.

may be helpful to note certain facts pertaining to these laws, such as the title by which each law is designated, rate of taxation, date of adoption, and yield of revenue in specified periods.

**Oklahoma.**—"Gross Production Tax." Three per cent of the gross value of oil and natural gas exceeding royalty interest and one-half of 1 per cent on the gross value of ores. Approved, February 14, 1916. Machinery and other property used at wells and mines are exempt from the general property tax.

Yield of revenue:

January 1, 1919, to June 30, 1919.....	\$1,949,002.71
July 1, 1919, to June 30, 1920.....	4,669,465.79
July 1, 1920, to June 30, 1921.....	7,714,102.68
July 1, 1921, to June 30, 1922.....	5,231,374.66
July 1, 1922, to June 30, 1923.....	7,404,885.63
July 1, 1923, to December 1, 1923.....	3,625,081.72

**Louisiana.**—"Severance tax" of 2 per cent on the gross value of the total production of timber, turpentine, and other forest productions, oil, gas, sulphur, salt, coal, ores, marble, stone, gravel, sand, and shells. Approved, June 30, 1920. The 1922 legislature enacted a new severance tax law which became effective January 1, 1923. This law fixed a tax rate of 3 per cent on oil and gas and 2 per cent on "all other natural products severed from soil or water." Property used in the production of these commodities is not exempt from the general property tax.

Revenue under the Louisiana law from all taxable products:<sup>41</sup>

Collections under act 31 of 1920, levying a tax of 2 per cent on the gross value of total production:

Six months, April to September, 1920.....	\$1,474,070.47
Twelve months, October, 1920, to September, 1921.....	1,611,218.50
Twelve months, October, 1921, to September, 1922.....	1,740,868.89
Three months, October to December, 1923.....	336,216.30

Collections under act 140 of 1922, levying a tax of 3 per cent on the gross value of oil and gas and 2 per cent on all other natural products:

1923 (calendar year).....	\$1,667,692.46
First quarter of 1924.....	372,265.46

The Louisiana severance tax was subjected to litigation, contesting the constitutional right of the legislature to impose this tax. Both the state supreme court and the district court upheld the validity of this law chiefly on the grounds that the tax was imposed under the police power of the state, to which the constitutional requirements of uniformity in taxation did not apply, and that it was not

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<sup>41</sup>. Figures are based on the value of products severed during the months indicated. Many of the data given here were obtained in advance of printed official reports, through the courtesy of Mr. W. N. McFarland, supervisor of public accounts, Baton Rouge, La.

an unreasonable or arbitrary exercise of the police power of the state. The decision of the lower courts was sustained by the United States supreme court on March 17, 1924.

*Texas.*—"Gross receipts tax" of 11½ per cent of the market value of oil produced; in force since 1907. Revenue in 1923, \$3,075,657.19.

*Minnesota.*—"Occupation tax," approved May 11, 1921, levies tax equal to 6 per cent of the valuation of all ores mined or produced, which said tax shall be in addition to all other taxes provided for by law. . . . Revenue thus far obtained under this law:

For the year 1921.....	\$2,425,739.65
For the year 1922.....	3,529,893.15
For the year 1923.....	6,127,921.36

The constitutionality of the Minnesota law has been sustained by the federal district court and by the United States Supreme Court.

*Pennsylvania.*—"Output tax," approved May 11, 1921, levying a tax of 1½ per cent of the value of every ton of anthracite coal when mined, washed and screened and ready for the market. This law also has been upheld by the United States supreme court.

Revenue :

1921 (6 months) .....	\$3,000,000.00
1922 .....	4,000,000.00
1923 .....	7,250,000.00

In explanation of these figures the auditor-general of Pennsylvania says:

"It should be explained that the act became effective July 1, 1921, and consequently the yield for that year was for the latter six months. In 1922 there was a five months suspension in the anthracite coal industry, which resulted in a decrease from the normal yield, while in 1923 there was some increase over normal expectations."<sup>42</sup>

**Constitutionality of Tax on Oil and Minerals in Kansas.**—Prior to the adoption, at the 1924 election, of the tax amendment to the state constitution, permitting classification of mineral products for taxation, it was not certain that Kansas could have established a production tax on oil and minerals. Precedents found in other states, whose constitutions require uniformity in taxation, gave grounds for the belief that the legislature might have passed a law fixing a charge in the form of a license fee or an occupation tax for the privilege of extracting these natural resources. However, the 1924 tax amendment is designed to remove constitutional inhibitions against a suitable tax on oil and minerals in Kansas.

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<sup>42</sup>. Letter to the author, dated July 24, 1924.

IX. EXCISE TAX ON CERTAIN NONESSENTIALS.

Much is being said about excessive taxes on productive enterprise and on the necessities of life. In an effort to reduce these taxes, it might be well to consider the possibility of obtaining a part of the public revenue by a tax on nonessentials and unnecessary spending.

**Vast Sums Spent for Nonessentials.**— Money spent for luxuries and nonessentials is, on the whole, made up of small individual sums, but these sums amount to staggering figures in the aggregate. The following figures give the approximate amounts spent for amusements in the United States by years from 1918 to 1922:<sup>43</sup>

Year.	Amount.
1918 (8 months) .....	\$263,573,390
1919 .....	509,196,080
1920 .....	767,205,550
1921 .....	897,308,330
1922 .....	733,849,560

The research division of the National Education Association states that the American people spent \$17,361,000,000 for luxuries in 1920, or nearly seventeen times as much as the total expenditures for education in that year.<sup>44</sup> This figure is based mainly on estimates. It would be extremely difficult to determine accurately the amount spent for luxuries. Furthermore, it is quite impossible to draw a sharp line of demarcation between luxuries and necessities. Things that are luxuries to one person may be necessities to another. For example, a library would be a luxury to an illiterate person but quite necessary to a scholar. Nevertheless, these figures are important in giving emphasis to the fact that vast sums are spent for nonessentials.

**Nearly \$40,000,000 Spent Annually in Kansas for Theaters, Club Dues, and Tobacco.**— Figures published by the United States Bureau of Internal Revenue on the expenditures for certain commodities that may be classified as nonessentials and for admissions to theaters may be taken as correct, since they are based on tax returns. During the fiscal year ending June 30, 1923, revenue derived from the 10 per cent tax on admissions to theaters, concerts, etc., in Kansas amounted to \$697,431.07. The 10 per cent tax on dues of social, athletic or sporting clubs of more than \$10 annually, brought a revenue of \$47,374.77.<sup>45</sup> On the basis of these figures, it is

43. Exclusive of education and philanthropic exhibitions, which were exempt from revenue tax.—From the Annual Report of the Treasurer of the United States, 1922, page 508.

44. Research bulletin of the National Education Association, Vol. I, No. 4, page 297.

45. Annual Report of the Commissioner of Internal Revenue for the fiscal year ending June 30, 1923, page 76.

readily calculated that the people of Kansas spent \$7,458,058 for taxable admission fees to theaters and for taxable club dues. This figure exceeds the property tax levy for state purposes in 1923 by 26.2 per cent. It is only 10 per cent less than the combined levies for the state government and the soldier bonus in 1923.<sup>46</sup>

It is more difficult to estimate the amount spent for tobacco than for theater admissions and club dues. An estimate presented before the committees on assessment and taxation of the 1923 Kansas legislature gave the amount spent for tobacco in this state at \$32,100,000 for the year ending June 30, 1922. This figure is probably not far from correct. The amount spent for tobaccos in the United States in 1920 is given at \$2,111,000,000 in the bulletin of the National Educational Association, referred to above, which is based on reports of the United States Treasury Department. This was an average expenditure of \$20 per capita for tobacco. Kansas had a population of 1,769,257 in 1920, according to the federal census. On the assumption that the average per capita consumption of tobacco in Kansas was about the same as in the United States as a whole, the tobacco bill of this state was \$35,385,000 in 1920. But it may not be correct to assume that the per capita expenditure for tobacco in this state is as large as in other states, since Kansas attempts to prevent the sale of cigarettes by law. However, a liberal allowance can be made for the possibility of a lower per capita consumption of tobacco in Kansas than in other states, without reducing the probable expenditure for this commodity to less than \$32,000,000, the estimate presented before the committees on assessment and equalization of the 1923 legislature.

**Sales Taxes Might Well Be Limited to Nonessentials.**— The writer desires to make it clear that he is not suggesting a general sales tax. Such a tax would work hardship on the poor, whose expenditures must be confined to the bare necessities of life. For administrative reasons it would be well to limit indirect taxes, of the kind suggested here, to widely used nonessentials that are well standardized. To do otherwise would be to annoy and to confuse the public with a series of “nuisance taxes.”

**Present System Penalizes Thrift.**— The present system of taxation in Kansas tends to penalize thrift and to reward improvidence. The law requires that savings be returned for taxation, unless they are invested in tax-exempt securities. Taxable savings, as all

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46. The property tax levy for the state in 1923 was \$5,908,807.09, and \$2,412,968.21 for the state soldier bonus.

other forms of property, are subject to the general property tax.<sup>47</sup> Consequently, taxes absorb a large part, in some cases all, of the returns from savings accounts, while the spendthrift, regardless of the amount he spends, makes no direct contribution toward the support of state and local government. A tax on nonessentials would not only reduce the burden on property, but would also tend to encourage thrift and discourage unnecessary spending.

**Proposed Tax on Nonessentials Would Yield About \$2,-600,000.**—A tax of 10 per cent on admissions to commercialized entertainments would yield about \$750,000 annually in Kansas. This seems particularly feasible since the federal tax on admissions of 50 cents or less was removed by the revenue act of 1924. Assuming that \$32,000,000 is an approximately correct estimate of the amount spent annually for tobaccos in Kansas, an excise tax of 6 per cent on the sale of tobaccos would yield an annual revenue of \$1,920,000. Together these taxes would yield a gross revenue of about \$2,670,000. This sum is equal to 3.5 per cent of the total property tax levy in Kansas in 1923, and to 45 per cent of the total levy for the state government and state institutions in the same year. The net revenue would be somewhat less than this figure, due to the cost of administering the tax law.

**Would Proposed Tax Drive Business Out of the State?** — One argument likely to be advanced against this tax is that it would be a boon to the mail-order houses, and would in other ways drive business out of the state. It is obvious that this argument has not even the semblance of validity in the case of admissions to theaters, for theater-goers would not go to neighboring states for their amusements to escape paying a few cents in taxes. The argument is not quite so clear in the case of tobaccos. But even here it is possible to exaggerate the importance of the objection raised. No dealer could ship in these commodities from mail-order houses in other states and thereby hope to escape the tax, because the tax would be levied on final sales. It is conceivable that consumers might order their goods from other states, although this, too, has its limitations. In the first place, it is unlikely that very much of this would be done, because the tax is nominal and these commodities are almost always bought in small quantities by the consumers. In this matter the success of the tax law would rest largely on the fact that the tax on any one purchase would be small and would be paid as part of the purchase price. Further-

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<sup>47</sup> This will no doubt be changed by the legislature under authority granted by the tax amendment to the constitution, adopted by the voters at the 1924 election.

more, evasion could also be reduced by so wording the law that these commodities imported for use as well as for sale would be subject to the excise tax.

**Would Reduce Property Taxes.**—One indication of ability to pay taxes may be found in the way income is spent. The expenditure of millions of dollars annually in this state for nonessentials of wide use shows that the masses have surplus wealth above the necessities of life. A portion of this surplus could logically and justly be taken by some suitable form of indirect taxation for the support of government and public institutions which exist for the benefit of all, thus reducing the burden on property.

**An Illustration of How Property Taxes Would Be Reduced.**—The belief is sometimes expressed that a tax on admissions to places of amusement and on certain nonessentials would be merely an additional tax, and would not be a relief to present taxpayers. This belief is based upon a misunderstanding of the true nature of the proposed tax. Since the revenue derived from this special tax would not be raised by property taxation, the tax burden on property would be reduced by the amount of the revenue obtained under the suggested revenue measure.

It is true that many who are now paying heavy taxes on property would be required to pay a portion of the excise tax on non-essentials, but this tax would result in a reduction in the tax levy on their property. Data illustrating this point were secured in a farm organization and land tenure study in Jackson county, Kansas, for the year 1922. Figures on expenditures for tobacco were obtained from 44 farm owners. The following calculation shows how these farmers would have been affected by the proposed tobacco tax had it been in force in 1922.<sup>48</sup>

Total property tax levy in 1922 in Kansas.....	\$69,378,646.87
Probable revenue from the tobacco tax (\$1,900,000) is of total property tax levy .....	2.73 per cent
Property taxes paid by 44 farmers in 1922.....	\$7,067.68
Money spent by the 44 farmers for tobacco in 1922.....	686.00
Expenditures for tobacco, plus tobacco tax.....	727.16
Reduction in property tax of the 44 farmers (2.73 per cent of \$7,067.68) .....	192.95
Tobacco tax (6 per cent of \$686.00).....	41.16
Net savings in taxes (\$192.95—\$41.16).....	\$151.79
Average net savings per farmer.....	3.45

<sup>48</sup>. These calculations are based on the assumption that a tobacco revenue of \$1,900,000 would have been used in a manner that would have reduced property taxes uniformly throughout the state, and that the reduction in taxes on property belonging to these 44 farmers would have been in the same proportion as the state-wide reduction in property taxes. This reduction would have been 2.73 per cent in 1922.

Thus the proposed excise tax would reduce property taxes, through a wider distribution of cost of government.

**Experience of Other States.**— The kind of tax proposed here is not without precedent. Several states levy taxes on cigarettes and a few on other forms of tobacco and on commercialized entertainments.

*Iowa.*— The Iowa law<sup>49</sup> provides for a tax of 1 mill on each cigarette of class A cigarettes; 2 mills each, class B; on cigarette papers, 5 mills for every fifty papers or fraction of 50;<sup>60</sup> and on tubes 1 cent for each 50 tubes or fraction of 50. Commenting on the yield of revenue and on the enforcement of this law, the state treasurer of Iowa says:

“The revenue from this sales tax for the first operating year, which was from July 4, 1921, July 1, 1923, amounted in round numbers to \$590,000; the second year, July 1, 1922, to July 1, 1923, \$630,000. The department has estimated for the third year, \$700,000, and a half of the third year has expired and going at the rate of \$750,000. . . . We are of the opinion that this sales tax is working very satisfactorily. There is no complaint throughout the state, and possibly very little violation.”<sup>51</sup>

*Utah.*— The Utah stamp tax on cigarettes is nearly the same as the Iowa tax.<sup>52</sup> Utah requires an annual license fee of each dealer, amounting to \$100, \$75, \$50 or \$25 per dealer, depending upon the size of the city or town in which the dealer's place of business is located. The Iowa law is the same in this respect, except that \$50 is the lowest license fee.

Mr. William Bailey, chairman of the Utah State Board of Equalization and Assessment, says:

“During the first six months of the operation of this tax a total of \$63,235.82 was collected through the sale of cigarette stamps. The total expense of operation during this period was \$5,301.87, but this amount includes such items as the cost of office equipment, printing copies of the law, etc., and also the cost of engraving and printing stamps. The total of these items amounts to about \$2,000 and they are of such a nature that they will not appear again for some years, so that their cost should be rated over the period which they cover. If this amount were deducted from the total cost of operation for the first six months it would materially reduce this charge . . . This tax is working in a very satisfactory manner and with comparatively little complaint, if any.”<sup>53</sup>

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49. Chapter 203, Acts of the 39th General Assembly of Iowa, effective July 4, 1921.

50. Class A, cigarettes weighing not more than 3 pounds per 1,000; class B, those weighing more than 3 pounds per 1,000.

51. Letter to the author, January 4, 1924.

52. Utah law, approved March 8, 1923, and effective May 8, 1923.

53. Letter to the author, December 22, 1923.

*Connecticut.*—The state of Connecticut passed a law in 1921, levying a tax on admissions to commercialized entertainments.<sup>54</sup> This tax is equal to one-half of the federal tax under the revenue act of 1921. According to the tax commissioner of Connecticut, this tax is working satisfactorily and is enforced at a low cost.

*Arkansas.*—The state of Arkansas levies a privilege tax on the sale of cigarettes which is a flat license fee of \$20 per year for retailers and \$50 a year for wholesale dealers, regardless of the quantity sold.

*South Carolina.*—The state of South Carolina levies a stamp tax upon certain commodities, namely cigars, cigarettes, smoking tobacco, candy of certain grades, and ammunition above a certain grade. It also levies a tax on commercialized entertainment.<sup>55</sup>

The revenue under the South Carolina law goes to the support of the state government. The amount of revenue for the period May 1 to December 31, 1923, was:

Stamp tax on cigars, cigarettes, smoking tobacco, ammunition and candy of a certain grade. . . . .	\$593,932.08
Tax on admission to commercialized entertainments <sup>56</sup> . . . . .	36,952.33

In summarizing the advantages of this tax in a letter to the writer, Mr. J. W. Wilks, director of the license tax division of the South Carolina State Tax Commission, says:

“First, that the taxes are levied upon nonessentials and therefore are voluntary, only those unwilling to do without certain luxuries having to pay the tax.

“Second, by virtue of the amounts raised by this method of taxation and other indirect taxes, the state levy on physical property has been reduced from 12 mills in 1921 to 6 mills in 1923, and it is hoped that a still further reduction of the levy may be made possible through the passage of other indirect taxes by the general assembly.

“Third, the taxes reach a class of taxpayers heretofore paying no tax at all.”

**Probable Constitutionality of the Proposed Tax on Non-essentials.**—Since the constitution of Kansas provides that taxes shall be levied uniformly on all property, except mineral products and intangibles,<sup>57</sup> it is an important question whether an excise tax

54. Connecticut laws, chapter 324, Public Acts of 1921.

55. South Carolina revenue act of 1923, effective May 1, 1923.

56. The amount collected came principally from circuses, carnivals, and baseball games. Tax on admission to theaters was suspended for a time under section 23 of the revenue act, but became effective again on January 1, 1924.

57. Authority to classify mineral products and intangible property for taxation is granted to the legislature in the tax amendment to the constitution approved by the voters at the regular election in 1924. Since this amendment is only an enabling act, the changes which it authorizes in the system of taxation will await action of the legislature.

on admissions to theaters and on the sale of certain nonessentials would be constitutional. Although legal opinion is by no means unanimous on this question, it seems probable that such a law would be constitutional in Kansas, if it were drawn in accordance with the generally accepted meaning of equality and uniformity. The term "equality" is generally understood to mean that the tax must be levied impartially and equally upon all persons, privileges, and property subject thereto. The law providing for a tax must also be state-wide in its application, and must specify the purpose for which the revenue will be used.<sup>58</sup> It is also essential that the amount of the tax should be reasonable.

Decisions of the supreme court of Kansas, and of other states, give further grounds for the belief that the suggested law, if carefully drawn, would be constitutional. These decisions certainly imply that the legislature has the power to levy license taxes on any business or occupation. In one case, the state supreme court uses the following language in discussing the authority of the legislature to enact tax laws:

"The constitution does not limit the sources of revenue, and the legislature is left free to resort to subjects of taxation other than property. Passing beyond lands and goods and other tangible things, the legislature may exact a tribute or fee or tax on the enjoyment of conveniences, advantages, privileges, and other sources and means of benefits, emolument, and profit."<sup>59</sup>

Furthermore, the state of Kansas now levies an excise tax on express companies amounting to 4 per cent of the annual gross receipts of the business which they do within the state. This tax is in addition to taxes on the property of these companies.<sup>60</sup>

During the 1923 session of the Kansas legislature, an opinion was rendered by a firm of lawyers of standing to the effect that the legislature had power to levy a tax on the privilege of operating a theater or other place of amusement, or upon the privilege of selling certain nonessentials.

The opinions and the precedents cited above give good reason for the belief that the proposed excise tax on certain nonessentials would be constitutional in Kansas.

#### X. GASOLINE TAX FOR ROADS.

Gasoline taxation has gained wide favor in recent years as a means of raising revenue for road construction and maintenance. The first gasoline tax law in the United States was enacted by the

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58. Constitution of Kansas, article 11, paragraph 4.

59. The case of *Wheeler v. Weightman*, Kansas Supreme Court Reports, Vol. 96, page 50.

60. Laws of 1909, chapter 246, paragraph 6.



makes dirt roads almost impassable during a large part of the year. It is therefore necessary to apply gravel or to build hard surface roads. Kansas has certain advantages over many other states in the construction and maintenance of roads. The land is relatively level, and the absence of a rainy season makes dirt roads reasonably satisfactory during most of the year. However, this does not mean that roads in this state are such that the people of Kansas will be satisfied without further construction and improvement.

**State Highway System Proposed.**—The Kansas State Highway Commission devoted several years to working out a complete system of state highways, which would connect every county seat and every large center away from the county seats; and connect with the roads of neighboring states. The proposed system was examined by the United States Bureau of Public Roads, and approved by the Secretary of Agriculture early in January, 1923. It provides for 6,325 miles of roads, or about 5 per cent of the total mileage of public roads in the state. Since each state is now entitled to federal aid for 7 per cent of the total road mileage, Kansas is entitled to federal aid for about 2,000 miles in addition to the mileage of the proposed highway system. Engineers have deemed it expedient to postpone definite plans for the additional mileage because local needs for roads may change with the development of the state. The proposed system of federal-aid roads is shown in figure 8.

**Definite System of Road Construction Desirable.**—If a tax were levied on gasoline for roads it would be wise to follow some definite plan in expending the revenue. Therefore, a system of state highways would be a highly desirable part of a plan for the economical use of the gasoline tax revenue and other general road funds. But whether the roads of such a system should be hard-surfaced, graveled, or graded dirt roads, is another question which can be answered only by taking into account the needs of each locality in the state.

Wholesome community life depends more and more on the kind of communication made possible by better roads. Most people will admit that it would be a good deal better to have graveled or hard-surfaced highways in many places where we now have dirt roads. Granting that people want better roads, they must, nevertheless, choose between poorer roads and lower taxes, on the one hand, and better roads and higher taxes on the other. The question is, How much would the taxpayers of Kansas pay for better roads? The an-

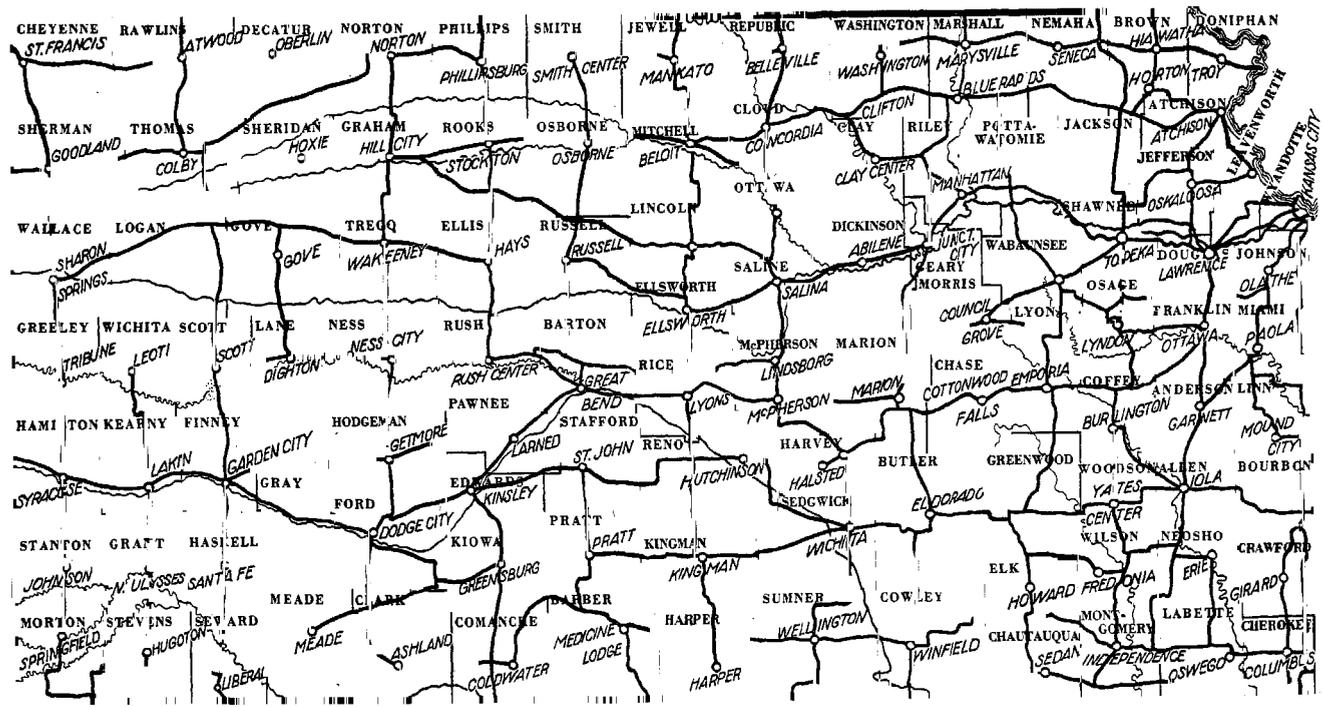


Fig. 8.—Map of Kansas, showing the proposed state highway system. A study of this map should be instructive to those who oppose the suggested system of state highways on the ground that "We should build roads from county seat to county seat, and not from New York to Los Angeles."

swer depends largely on how the funds are raised, and how the burden is distributed.

Many roads and bridges are local in character, and the cost of them can well be borne by local taxation. It is quite different with the main roads of the state, such as the proposed federal-aid highways. These highways are not predominantly local in character; and this is one reason why the gasoline tax is better than other forms of taxation for raising road funds.

**Gasoline Tax is Levied in Proportion to Use of Roads.**—It is desirable that the cost of construction, improvement and maintenance of roads should be borne as far as possible by those who use them in proportion to such use. State highways are used extensively by both country and city people and by tourists from other states. A tax on gasoline for the support of roads is in fact collected from the consumer by being added to the price of gasoline. Thus it requires every owner of automobiles and other motor vehicles to pay a tax toward the support of the roads in proportion to the amount of driving. The present system of financing roads by general property taxation and by special taxes on land adjacent to the road, is recognized more and more as an injustice to the property owner.

**Gasoline Tax Wins Public Favor.**—Authorities in states having the gasoline tax say that this means of raising road funds has gained general approval in their states. This popular favor is based mainly on two reasons: In the first place, the tax is collected from those who use the roads; and secondly, the money is spent in a way that directly benefits those who pay the tax. When the owner of an automobile or truck buys gasoline he pays the tax as a part of the purchase price. The tax is paid frequently and in small amounts. It is spent for road improvements, which will enable the taxpayer to use his car or truck to better advantage, and with less wear and a lower repair bill.

**Under Present System, Cost of Roads Falls on Tangible Property.**—Under the present system of taxation, real estate and tangible personal property bear the principal part of the cost of roads. The opinion is sometimes advanced that land adjacent to highways should bear the cost of construction and maintenance, since improved roads help to increase land values. While it is true that road improvement enhances the selling value of adjoining land, it is also true that the assessed valuation will rise, since effort is made to maintain a fairly constant ratio between assessed valua-

tion and selling value. As a result of the rise in valuation, the landowner will be required to pay higher taxes. It may be said that he can afford to do so since the value of his land has been increased by road improvement. But the increased value is on paper only, for the farmer does not realize any of it until he sells his farm, except in so far as better roads enable him to carry his products to market at less cost.

**Tax of 2 Cents a Gallon Would Yield About \$3,500,000 in 1925.**—A gasoline tax of 2 cents a gallon in Kansas would have brought a revenue of about \$2,952,000 in 1923. This figure exceeds the probable revenue for 1922 by about \$280,000, because the number of motor cars from 1922 to 1923 increased 14.8 per cent. If the same absolute increase should continue till 1925, a tax of 3 cents a gallon would yield a revenue in that year of about \$3,712,000. But it is by no means certain that the increase in the number of automobiles in Kansas in 1924-1925 will be as great as in 1923. In view of the fact that 1923 was a year of economic depression in Kansas, particularly in the beef cattle and wheat sections, it would seem conservative to assume an increase in the two years 1924-25 equal to one and one-half times that of 1923. On this basis a tax of 2 cents per gallon would yield a gross revenue of about \$3,522,000 in 1925.<sup>61</sup>

**Gasoline Used in Tractors May Be Exempted.**—Objection is sometimes raised against this tax on the ground that it would be levied on gasoline that is not used on roads, such as gasoline for tractors, stationary engines, etc. This would be an important objection if it were not possible to overcome it. A law providing for a tax on motor fuel must first of all define "motor fuel." The definition could be worded to include only those fuels having a flash point of less than 110 degrees Fahrenheit, thereby exempting kerosene used in the homes and distillate often used in tractors. The law could also provide that anyone buying gasoline for uses other than on the roads might have the tax refunded to him. This is done in some of the states that now have the gasoline tax, by allowing the

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61. The probable amount of revenue has been calculated on the basis of the data obtained from sixteen states that had a tax of 1 cent per gallon in 1922. These states were: Arizona, Arkansas, Colorado, Connecticut, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Montana, New Mexico, North Carolina, Pennsylvania, South Dakota, and Washington. These states raised a total revenue of \$10,426,929 in 1922. According to data published by the automobile industry, these states had 2,649,909 cars in 1922. Thus the average revenue under the gasoline tax law, at 1 cent a gallon, was \$3.93 per car in these sixteen states. Kansas had 875,571 automobiles in 1923, or 48,377 more than in the previous year. Assuming that the same average amount of gasoline is used per automobile in Kansas as in the above 16 states, the probable amount of revenue in 1923 at 1 cent per gallon is found by multiplying the number of automobiles by \$3.93. This figure is in turn multiplied by 2 to find the probable revenue (\$2,951,988) in 1923 at 2 cents per gallon.

person who buys gasoline for his tractor or stationary engine to have the tax refunded upon presenting the dealer's receipt to proper authorities, together with a statement certifying that the gasoline was not used on roads.

**Evasion Can Be Reduced to Minimum.**—There would be chances for evading this tax law. A few individuals would probably try to claim a refund on gasoline actually used on the road. But evasion could be minimized considerably by providing, in the penalty clause of the law, that anyone convicted of such evasion would be required to pay double the tax thus evaded plus a fine. Few people would be willing to take such a risk for the sake of avoiding the payment of a nominal tax. No revenue law ever was made that did not leave some chance for evasion. All that can be done is to reduce such chances to a minimum, and beyond that to rely on the integrity of the people and on the general approval of the tax itself for compliance with the law.

**The Gasoline Tax Apparently Does Not Reduce Consumption of Gasoline.**—The gasoline tax has been opposed on the ground that it would reduce the sale of gasoline. It is alleged that consumers of gasoline would reduce their purchases, as a consequence of a higher price due to the tax. There appears to be no foundation in fact for this argument. It is difficult to conceive of a better stimulus for the increase of gasoline consumption than good roads. Nearly all states having the gasoline tax use the revenue for road construction and maintenance, and it is logical to conclude that better roads induce people to buy more automobiles and to use more gasoline.

If it were true that the gasoline tax reduces the consumption of gasoline, it would seem that it would also reduce the sale of motor cars. That this is not the case is shown by the following data on the number of automobiles in 1922 and in 1923:<sup>62</sup>

	( Number of automobiles )		Per cent increase 1922 to 1923.
	1922.	1923.	
All states .....	12,281,145	15,221,183	23.9
States having the gasoline tax in 1923....	6,017,979	7,658,646	27.3
States not having the gasoline tax in 1923,	6,263,466	7,562,537	20.7

**Cost of Collecting Gasoline Tax Less Than 50 Cents per \$100.**—It is difficult to determine the exact cost of collecting the gasoline tax, since administrative officers and their assistants usually perform other duties in addition to administering the gasoline law.

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<sup>62</sup>. From data of the automobile industry.

TABLE XIV.—Cost of administering the gasoline tax law in eight states.

STATE.	Periods included.	Rate per gallon (cents).	Total revenue.	Cost of administration for period included.	Cost of administration per \$100 of revenue.
Idaho.....	1923.....	2	\$400,000	\$6,000	\$1.50
Indiana.....	1923.....	2	2,550,361	3,471	.14
Louisiana.....	1922 and 1923.....	1	1,291,233	15,000	1.16
Mississippi.....	1922 and 1923.....	1	675,842	3,600	.53
Tennessee.....	"2½ years".....	2	810,000	6,075	.75
Vermont.....	4- 1-23 to 11- 1-23...	1	153,116	200	.13
Washington.....	7- 1-21 to 11-30-23...	1	2,648,680	6,000	.23
West Virginia.....	7-26-23 to 10-31-23...	2	366,529	1,970	.54
Totals.....			\$8,895,771	\$42,316	\$0.48

The author requested administrative officers, of the various states having the gasoline tax, to inform him of revenue collected and the cost of collection over a given period. A few of the states reported no cost of collection, using such phrases as, "Dealers remit to controller, practically no cost," and, "No administrative expense charged." Since there must be some administrative expense involved in carrying out the provisions of the gasoline tax law, irrespective of how indistinguishable it may be from other expenses of a state department, the states reporting "no cost" were not included in Table XIV. This table includes only the eight states that were able to give reasonably specific data on the cost of collecting the gasoline tax. It will be noted that the average cost for these states is 48 cents per \$100 of revenue.

**Costs Lower When Tax is Collected From Wholesalers.**—Administrative officers in states having a tax on gasoline report that the cost of administration is much less when the revenue is collected from wholesalers, refiners, and importers of gasoline than when it is collected from retailers. As a general principle, a tax on the sale of a product should be collected at points where the business is most concentrated. The soundness of this principle has been so amply demonstrated in the case of the gasoline tax that it has created a movement for the collection of the tax from wholesalers, refiners and importers in the states where the law at first provided for collection from the retailers. Of the states having a tax on gasoline, only five states collected the tax from retailers in 1923.<sup>63</sup>

**Principal Provisions of a Gasoline Tax Law.**—It is not practicable to include a complete gasoline tax law in this bulletin. However, based on the experience of other states, it is possible to give an outline of the principal points that should be taken into account in drafting such a law:

1. The tax should be reasonable. In determining the rate per gallon, some recognition should be given to the amount of the existing automobile license fee. If that fee is low it would be reasonable to levy a higher tax on gasoline than if the fee were high. In the writer's opinion, two cents per gallon would be a reasonable tax in Kansas, with the present automobile license fee.
2. The tax should be levied only on the gasoline imported, refined or manufactured for use in the state.

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63. "The Gasoline Tax," by James W. Martin, The Bulletin of the National Tax Association, December, 1923.

3. Taxes paid on gasoline used for purposes other than to propel vehicles on roads, should be refunded, when possible.

4. The tax should be collected at points where the gasoline business is most concentrated, *i. e.*, from wholesalers, importers, refiners, or manufacturers. Collection from retailers is expensive and cumbersome, both to the retailer and to the administrator of the law, and gives greater opportunity for evasion.

5. The gasoline tax law should be administered by state authority and not by local officials. The state department charged with administering the law should be given sufficient authority and resources to carry out the provisions of the law.

6. The net revenue under the gasoline tax should be used only for roads.

**State versus Local Control Over Road Funds.**—The way in which gasoline tax revenue should be used for roads has been and is a much debated question in Kansas. Opinions on this problem fall into three groups. It is believed:

1. That the revenue should be divided among the counties and spent by the county commissioners without the restraining influence of the state highway commission.

2. That the revenue should be spent exclusively under the authority of the state highway commission, the law stipulating the portion of the total fund to be spent within each county.

3. That a stipulated portion of the revenue should be placed in the state road funds of the various counties “to be paid out for the construction and maintenance of state roads only, upon vouchers allowed by the various boards of county commissioners and approved by the state highway commission.”<sup>64</sup> This is a compromise plan designed to obviate excessive local control on the one hand and exclusive state control on the other. Under this plan, it might be possible to secure a unified road policy, which would be in accordance with the trend in other states. For several years, there has been a tendency throughout the country toward more state control over roads, through the state highway departments.

**Distribution of Revenue Among Counties.**—Even though the question of state versus local control of road construction should be settled by a satisfactory compromise, the problem of apportioning the revenue from the gasoline tax among the various counties would still have to be solved. It would be necessary to stipulate the por-

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<sup>64</sup>. Quoted from the recommendations of the road committee of the State Association of County Commissioners, published in the Topeka Daily *State Journal*, August 16, 1924.

tion of the total revenue to be expended in road construction and maintenance within the various counties. It has been suggested that 40 per cent of the revenue should be divided equally among the 105 counties and that 60 per cent should be divided among the counties in proportion to their assessed valuation.<sup>65</sup> This is designated as plan No. 1 in Table XV.

It has also been suggested that the revenue should be apportioned among the various counties on the basis of the ratio which the total mileage of the state highway system within the county, the population of the county, and the number of automobiles registered in the county on a specified date bear to the total mileage of the state highway system, the population of the state and the number of automobiles registered in the state on the same date. This is designated as plan No. 2 in Table XV.

Table XV shows how \$3,000,000 of gasoline tax revenue would have been distributed in 1923 on the basis of the two methods of distribution suggested above. This table also shows the number of motor vehicles registered in each county in 1923, and the approximate amount of gasoline tax revenue from each county. In arriving at the latter figure, it was assumed that the amount of revenue from each county is in approximate proportion to the number of motor vehicles.

**Probable Constitutionality of a Gasoline Tax Law in Kansas.**<sup>66</sup>—The constitutionality of the gasoline tax law in states whose constitutions require uniformity in taxation, rests on the fact that the gasoline tax is an excise tax and not a property tax. The following are a few of the many court decisions in which the constitutionality of the gasoline tax has been upheld:

1. *Altitude Oil Company v. The People of the State of Colorado*, November 7, 1921. In denying the contention that the gasoline tax law was discriminatory, the supreme court of Colorado used the following language:

“It is in no sense discriminatory, because it applies to all sales of that kind, and affects all dealers in proportion to their sales; if it can, in truth, be said to affect them at all, since the tax is added to the price of the product. It applies impartially to dealers throughout the whole state. It is in fact, a tax upon the sale and use of the product, rather than upon the product itself.”

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65. Report of the road committee of the State Association of County Commissioners, adopted at the state convention of the Association in November, 1924.

66. Also the discussion of the probable constitutionality of excise taxes on certain non-essentials at the close of Section IX of this bulletin.

TABLE XV.—Approximate revenue from each county at a tax of 2 cents a gallon, and approximate distribution of the revenue under each of two plans; 1923 basis.

COUNTIES.	Motor cars and trucks in 1923.	Revenue from gasoline tax at 2 cents a gallon.	Miles of state highway system (a).	Distribution of revenue.	
				Plan No. 1 (b).	Plan No. 2 (c).
Allen.....	4,744	\$37,905	60	\$30,992	\$41,525
Anderson.....	2,644	21,126	53	25,964	20,539
Atchison.....	4,159	33,230	58	34,793	42,505
Barber.....	1,996	15,948	72	22,906	16,229
Barton.....	4,362	34,852	90	36,004	32,405
Bourbon.....	4,588	36,658	93	28,036	40,781
Brown.....	4,617	36,890	76	37,434	34,919
Butler.....	11,892	95,017	73	68,053	71,597
Chase.....	1,575	12,584	27	24,296	11,405
Chautauqua.....	2,434	19,448	46	21,579	18,882
Cherokee.....	5,593	44,688	83	29,583	55,799
Cheyenne.....	1,703	13,607	54	17,615	10,816
Clark.....	1,002	8,006	44	17,769	8,240
Clay.....	3,745	29,923	36	29,364	26,661
Cloud.....	3,818	30,506	99	31,521	29,584
Coffey.....	3,135	25,049	96	24,891	24,340
Comanche.....	1,033	8,254	58	17,936	7,904
Cowley.....	8,409	67,188	122	45,434	62,616
Crawford.....	10,131	80,947	78	39,301	96,689
Decatur.....	2,204	17,610	64	19,194	14,402
Dickinson.....	6,525	52,135	24	39,682	43,852
Doniphan.....	2,598	20,758	28	26,789	24,011
Douglas.....	5,258	42,011	65	34,343	40,591
Edwards.....	1,663	13,287	69	20,774	11,801
Elk.....	1,905	15,221	51	21,374	16,573
Ellis.....	1,947	15,557	61	23,595	23,733
Ellsworth.....	2,328	18,601	54	26,426	17,159
Finney.....	1,401	11,194	102	20,509	12,201
Ford.....	2,945	23,531	120	26,891	25,467
Franklin.....	4,472	35,371	67	32,557	37,872
Geary.....	2,732	21,829	23	22,658	22,256
Gove.....	1,054	8,421	68	16,811	8,376
Graham.....	1,600	12,784	68	18,991	12,717
Grant.....	296	2,365	46	13,528	2,577
Gray.....	958	7,654	24	16,985	8,025
Greeley.....	329	2,629	38	14,166	2,358
Greenwood.....	4,888	39,055	83	34,061	29,973
Hamilton.....	499	3,987	66	14,496	4,160
Harper.....	2,873	22,955	43	28,645	22,243
Harvey.....	4,336	34,645	57	33,346	33,263
Haskell.....	374	2,988	36	13,946	3,290
Hodgeman.....	845	6,752	63	17,181	6,191
Jackson.....	2,906	23,219	44	28,983	24,432
Jefferson.....	2,754	22,004	82	28,719	22,327
Jewell.....	3,800	30,362	70	33,409	26,202
Johnson.....	4,520	36,115	63	34,918	32,486
Kearny.....	494	3,947	64	15,145	4,211
Kingman.....	2,689	21,485	64	28,336	19,345
Kiowa.....	1,288	10,291	49	19,945	10,022
Labette.....	5,469	43,697	98	33,702	55,646
Lane.....	622	4,970	36	15,564	4,862
Leavenworth.....	5,432	43,402	91	34,228	63,629
Lincoln.....	2,403	19,200	58	25,063	17,125
Linn.....	2,403	19,200	60	23,379	23,842
Logan.....	809	6,464	88	16,071	6,263
Lyon.....	5,504	43,977	94	36,913	44,295
Marion.....	5,755	45,982	75	41,558	40,374
Marshall.....	5,327	42,563	91	40,211	37,650
McPherson.....	5,033	40,214	90	40,157	35,253
Meade.....	1,180	9,428	32	18,084	9,428
Miami.....	4,079	32,591	66	32,394	31,457
Mitchell.....	3,125	24,969	59	28,812	21,920
Montgomery.....	10,394	83,048	109	49,339	86,904
Morris.....	2,619	20,926	44	24,917	18,601
Morton.....	571	4,562	64	14,127	6,532

TAX REVISION IN KANSAS.

TABLE XV—CONCLUDED.

COUNTIES.	Motor cars and trucks in 1923.	Revenue from gasoline tax at 2 cents a gallon.	Miles of state highway system (a).	Distribution of revenue.	
				Plan No. 1 (b).	Plan No. 2 (c).
Nemaha.....	4,017	\$32,096	62	\$35,845	\$30,431
Neosho.....	4,658	37,217	60	31,144	38,756
Ness.....	1,445	11,546	72	20,543	12,960
Norton.....	2,835	22,652	93	21,564	20,018
Osage.....	3,546	28,333	76	29,106	32,421
Osborne.....	2,927	23,387	82	25,986	21,674
Ottawa.....	2,533	20,239	44	26,553	17,762
Pawnee.....	2,403	19,200	77	25,968	16,238
Phillips.....	3,020	24,130	92	25,270	21,217
Pottawatomie.....	3,297	26,343	44	29,576	24,639
Pratt.....	2,856	22,819	62	27,170	21,461
Rawlins.....	2,006	16,028	70	17,179	12,017
Reno.....	9,476	75,713	150	60,142	77,614
Republic.....	3,775	30,162	59	33,449	29,432
Rice.....	3,374	26,958	81	33,064	23,974
Riley.....	4,236	33,846	83	30,545	31,351
Rooks.....	2,270	18,137	98	21,804	16,905
Rush.....	1,942	15,517	65	22,654	14,215
Russell.....	2,185	17,458	90	25,178	18,215
Saline.....	6,239	49,850	80	44,050	44,709
Scott.....	633	5,087	58	15,307	5,738
Sedgwick.....	23,139	184,881	88	98,360	176,984
Seward.....	1,233	9,852	46	17,541	10,176
Shawnee.....	14,748	117,837	76	69,118	112,686
Sheridan.....	1,379	11,018	46	18,403	10,122
Sherman.....	1,401	11,194	64	17,142	10,660
Smith.....	3,404	27,198	74	29,296	24,742
Stafford.....	2,752	21,988	70	26,778	19,319
Stanton.....	279	2,229	36	13,375	2,230
Stevens.....	765	6,112	40	15,556	6,531
Sumner.....	5,969	47,692	114	43,264	47,509
Thomas.....	1,780	14,222	78	18,346	10,977
Trego.....	1,231	9,836	66	17,841	10,109
Wabaunsee.....	2,479	19,807	80	26,070	17,778
Wallace.....	533	4,259	58	15,219	4,085
Washington.....	4,158	33,222	78	35,087	29,653
Wichita.....	420	3,356	46	14,228	3,441
Wilson.....	3,887	31,057	56	32,136	34,451
Woodson.....	1,692	13,519	60	20,563	14,570
Wyandotte.....	19,898	158,985	34	84,569	206,682
Total.....	375,606	\$3,001,124	7,037	\$2,999,332	\$3,000,185

(a) Data on road mileage furnished by Prof. C. H. Scholer, of the Engineering Experiment Station, Kansas State Agricultural College.

(b) Plan No. 1: 40 per cent of \$3,000,000 divided equally among the various counties, and 60 per cent distributed on the basis of the assessed valuation of the counties in 1923.

(c) Plan No. 2: A revenue of \$3,000,000 divided among the counties on the basis of the number of motor vehicles, the number of miles of state roads, and the population in the various counties.

2. *Bowman v. Continental Oil Company*, decided by the supreme court of the United States. This case tested the constitutionality of the gasoline tax law of the state of New Mexico, and is of special importance, for the supreme court held that this gasoline tax was not in restraint of interstate commerce. The court also held that the imposition was an excise tax, which would be collected on interstate value, without interfering with interstate commerce, and that the act did not infringe rights under the "due process" and "equal protection" clauses of the fourteenth amendment to the federal constitution. ("Having determined that this is an excise tax, we need not consider the other constitutional questions raised, which are based upon the assumption that it is a property tax."<sup>67</sup>)

3. *State v. Hart*.<sup>68</sup> This decision of the supreme court of Washington is also of special importance in a consideration of the probable constitutionality of a gasoline tax law in Kansas, because of the similarity of the constitutions of the two states with respect to taxation. Both constitutions provide for "uniform and equal rate of assessment and taxation."<sup>69</sup>

The first act, levying a gasoline tax of 1 cent a gallon in the state of Washington, was passed in 1921. This tax was increased to 2 cents in 1923. The constitutionality of the 1921 act was sustained by the state supreme court in the case of *State v. Hart*. In view of the many previous decisions holding that the constitutional requirement of uniformity in taxation does not apply to excise taxes, the constitutionality of the gasoline tax was not challenged on the theory that the law conflicted with the equality clause of the constitution of Washington. The law was attacked on the ground that it granted unequal privileges and immunities and denied equal protection of the law, because it imposed the gasoline tax only upon the first seller of gasoline. In other words, it was charged that the act discriminated between the first seller and subsequent sellers, levying a tax upon the former and exempting the latter. The supreme court replied that the constitution did not prohibit the legislature from classifying dealers for the purpose of levying excise or privilege

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67. Volume 41 of the United States Supreme Court Reports, page 606.

68. Decisions of the Supreme Court of Washington, Vol. 125, page 520.

69. The Washington constitution, article VII, section I:

"The legislature shall provide by law a uniform and equal rate of assessment and taxation on all property in the State according to its value in money, and shall prescribe such regulations by general law as shall secure a just valuation for taxation of all property, so that every person and corporation shall pay a tax in proportion to the value of his, her or its property." Section 5: "No tax shall be levied except in pursuance of law, and every law imposing a tax shall state distinctly the objects of same, to which only it shall be applied."

The Kansas constitution, article XI, paragraph 1 (prior to the adoption of the 1924 tax amendment): "The legislature shall provide for a uniform and equal rate of assessment and taxation." Paragraph 4: "No tax shall be levied except in pursuance of a law, which shall distinctly state the object of the same; to which object only such tax shall be applied."

taxes so long as the classification was reasonable and treated alike all persons similarly circumstanced. One paragraph from the decision of the supreme court of Washington in the case of *State v. Hart* is of special significance in this connection:

“Indeed it can well be argued that the first sellers are in practical effect not burdened at all with this tax, except possibly the insignificant burden that is put upon them to see that the tax reaches through them the state treasurer.”

Not only has the gasoline tax been declared constitutional in a number of cases arising in states that still have the “equality clause” in their constitutions, but this tax is also in force in several other states that have similar constitutional limitations in matters of taxation. Among these are Florida, Mississippi, and Nevada, where, in so far as the writer has been able to ascertain, the constitutionality of the gasoline tax has not even been challenged.

Although the 1924 tax amendment to the state constitution gives the Kansas legislature power to classify “mineral product’s” for taxation, it is by no means certain that the constitutionality of a gasoline tax law in this state would rest in any way on this amendment, since the interpretation which the courts will give to it cannot be predicted in advance of court opinions in specific cases. Gasoline may not be a “mineral product” within the meaning of the amendment. Even though the courts should find that the tax amendment has no bearing on the constitutionality of a gasoline tax law in Kansas, court decisions in other states and the precedents cited above give good grounds for the belief that a gasoline tax would be constitutional in this state.

#### XI. SEPARATION OF STATE AND LOCAL REVENUE.

**Meaning of Separation.**— In one sense of the term, *separation* means that state and local revenues are derived from independent sources. In another sense it denotes different taxes for state and for local purposes, although the revenue from these taxes may come from the same sources. The former has been called “segregation” and the latter “true separation.”<sup>70</sup> More specifically, “segregation” refers to a system where property is classified for taxation and divided between the state and the subdivisions. Thus California has “segregation” of state and local revenue, in that certain corporate property is reserved for state taxation only, while other property

<sup>70</sup> Prof. Carl C. Plehn, in the Proceedings of the Ninth Annual Conference of the National Tax Association (1915), page 58.

bears local taxes.<sup>71</sup> "True separation" denotes a system where the state derives all of its revenue by separate means, such as income, inheritance, and excise taxes, while the counties and other subdivisions are financed by the general property tax.<sup>72</sup>

**1. POSSIBILITY OF TRUE SEPARATION IN KANSAS.**

The possibility of "true separation" of state and local revenue in Kansas depends largely on the amount of revenue that could be raised by means other than property taxation. The tax measures suggested in this bulletin would yield a gross revenue of about \$10,800,000 annually.<sup>73</sup> But this total includes \$3,500,000 from the gasoline tax, which should be used for roads only. The remainder of the total revenue or \$7,300,000 might be used in any one of three ways:

1. It might be credited to the general fund of the state for the support of the state government and state institutions. This would be "true separation" if the revenue were adequate.

2. It might be divided among the various subdivisions of the state, or expended for any specific purpose, such as the public schools.

3. A portion of it might be credited to the general fund of the state, and the remainder be distributed among the local subdivisions.

Whether the revenue from the proposed taxes were distributed in one or another of these possible ways, it would help to reduce the tax burden on real estate and on other tangible property. The average annual property tax levy for state and local purposes in Kansas for the five-year period 1919 to 1923 was \$68,939,816. The average levy for state purposes in the same period, exclusive of the soldier bonus in 1923, was \$6,363,914, which was 9.23 per cent of the total levy. If the state had been financed exclusively by means other than property taxation during this period the tax burden on property would have been 9.23 per cent less than it was, assuming the same total expenditures for local purposes.

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71. In California, "the properties segregated or listed for state taxation are those belonging to the public utilities (except water companies) or banks, insurance companies, and all franchises. These are taxed by methods different from those of *ad valorem* property tax as applied to other properties. Thus railroads and the other public utilities are taxed on the basis of gross receipts; banks on the book value of the capital stock; insurance companies on the basis of net premiums and franchises on an assessment made by a state board."—Digest of State Laws Relative to Assessment and Taxation, page 38, Bureau of the Census, 1922.

72. Mable Newcomer, "Separation of State and Local Revenue in the United States," pages 11 and 12, Columbia University Studies in History, Economics and Public Law, Vol. 76, No. 2, 1917. This monograph is a general survey of the subject of separation.

73. Estimated annual yield of each revenue measure: The personal income tax, \$2,000,000; excise taxes on certain nonessentials, \$2,600,000; gross production tax, \$2,700,000; the gasoline tax, \$3,500,000; total \$10,800,000. No effort has been made to estimate the amount of additional revenue that would result from a classification of intangible property, in addition to the yield of the present general property tax on the intangibles that now reach the tax rolls.

**Revenue from Suggested Taxes Would Probably Suffice for State Government.**—As noted above, the suggested revenue measures, exclusive of the gasoline tax, would yield about \$7,300,000 annually. This is \$933,000 more than the average annual state tax levy for the past five years, and \$1,391,000 more than the state levy on property in 1923. It will be seen that the proposed taxes could be expected to yield enough revenue to make the state government and state institutions independent of property taxation.

**Possible Additional Sources of State Revenue.**—The revenue measures suggested in this bulletin have not exhausted the possible means of raising state revenue, other than property taxation. For instance, it would be possible so to amend the present inheritance tax law that additional revenue could be obtained from inherited wealth.<sup>74</sup> But any such attempt at revision of this law must take into account the fact that the federal government has also resorted to the inheritance tax as a source of revenue. If this course were left to the states exclusively, as several authorities on taxation believe it should be, the case would be even more definitely in favor of legislation to secure more state revenue from inheritance.

A corporation income tax is another possible means of raising revenue to supplement property taxation.<sup>75</sup> Such a measure has not been recommended here, since it involves a number of complicated problems that are clearly beyond the scope of this publication, such as the relation of income taxation to property taxation. The corporation income tax is mentioned only as a possible means of raising additional revenue, a means that has been adopted in a number of other states, such as Connecticut, New York, and Wisconsin.<sup>76</sup>

One of the difficult problems in the relation of income taxation to property taxation pertains to the desirability of total exemption of intangible property in a revenue system where extensive reliance is placed on the income tax. Such exemption of intangibles is in accordance with the most advanced thought on state and local taxation.<sup>77</sup>

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74. The Kansas inheritance tax law gives a higher maximum exemption (\$75,000) than is granted in any other state. Rhode Island has the next highest exemption, or \$25,000. Of the 45 states having inheritance taxes in 1922, only five grant a maximum exemption of more than \$15,000. The Kansas State Tax Commission, in its report to the 1923 legislature, recommended a reduction in the maximum exemption "to some amount which the general legislation of the country recognizes as proper and expedient." (Eighth Biennial Report to the Legislature, page 45.)

75. See Part V of the preliminary report of the committee appointed by the National Tax Association to prepare a model system of state and local taxation, proceedings of the twelfth conference of the National Tax Association, 1919, page 451.

76. See the annual report of the New York State Tax Commission, 1921, pages 78 to 77, inclusive, for a tabulated summary of matters pertaining to the taxation of corporations in the various states.

77. See the proceedings of the twelfth conference of the National Tax Association (1919) page 444. Section 14 of the preliminary report of a committee of experts of this association to prepare a model system of state and local taxation.

On the basis of the estimated revenue of the proposed tax measures, and in view of the possibility of devising other means of raising revenue for state purposes, it seems entirely possible to raise enough funds, by means other than property taxation, to finance the state government and state institutions in Kansas, and thus relieve property of the state tax. The writer believes that the greater importance of these revenue measures lies in the relief which they would bring to taxable property; and that any advantage that could be claimed for separation of state and local revenue would be relatively less important. The adoption of these tax measures would be a relief to general property, even though the revenue were not expended in such a way as to secure complete separation.

Authorities on taxation are not in agreement on the merits of separations.<sup>78</sup> Space does not permit a detailed discussion of the controversial points. But the principal arguments on both sides will be stated briefly, in an effort to indicate what might be expected of separation in Kansas.<sup>79</sup>

## 2. PRINCIPAL ARGUMENTS FOR SEPARATION.

**Elimination of Effect of Unequal Valuation Among Counties.**—“The principal argument in support of complete separation of state and local revenue is that such a system, perhaps, would remove completely the incentive to the practice in many counties of undervaluing property in assessment, so as to lessen the share of such counties in the state tax.”<sup>80</sup> This advantage would be realized either by “true separation” or by “segregation” of state and local revenue.

**Reduction of Taxes on General Property.**—If the state revenue in Kansas should be separated from local revenue by means of such tax measures as have been proposed in this bulletin, the tax burden on property in general would be reduced by the amount of the state levy. But this reduction could probably be effected, with reasonable uniformity throughout the state, by a distribution among the local taxing units of a part, or all, of the revenue from these tax measures. In the writer’s opinion, as noted above, the elimination of the incentive to undervaluation of property within the

78. Space does not permit reference to the numerous contributions by various writers on this subject. The case for separation is perhaps best stated in Prof. Edwin R. A. Seligman’s *Essays in Taxation*, eighth edition, chapter XI; the case against separation in the *Quarterly Journal of Economics*, Vol. 24 (1910), page 43, by Prof. C. J. Bullock, and in *The Annals*, Vol. 58 (1915), page 131, by Prof. T. S. Adams.

79. In Kansas Bulletin 232 “Assessment and Equalization of Farm and City Real Estate in Kansas.” July, 1924, page 68, the writer suggested separation as a means of solving the problem of unequal assessment among counties; but separation itself was not discussed at that point.

80. Kansas State Tax Commission, second report to the legislature (1911), page 13.

various counties is of less importance than the reduction in property levies which would be made possible by the proposed taxes.<sup>81</sup>

**Wider Benefits of Property that is General in Character.**<sup>82</sup>— Certain properties, such as railroads and other interstate and inter-county public service corporations, are general in character, while other property, especially real estate, is local in character and should therefore bear local taxes. The value of such corporations is derived as much from the patronage of people residing outside of the local taxation districts where the greater part of the property of the corporations is located, as from people residing within these districts. If taxes levied on the property of such corporations were paid into the state treasury for the benefit of the general revenue fund, it is held that the benefit would be distributed more equitably over the whole state than is possible under the present system. The benefit would accrue to all taxing districts in the form of a reduction of the tax levy on real estate and personal property. This is in accordance with the often enunciated principle that taxes levied on a class of property should accrue to the government whose people create the value of the property taxed.

### 3. PRINCIPAL ARGUMENTS AGAINST SEPARATION.

**Would Handicap State Control Over Local Expenditures.**— It is held that separation would hamper state control over local taxation, since the state government would no longer have a direct interest in local levies or in the valuation of property as a base for state revenue. On this ground it is argued that separation would retard the movement toward more efficient administration of the affairs of local taxation through centralization of control, a movement that has made important progress in recent years. This is the position taken by the committee on state and local taxation of the National Tax Association. In its preliminary report, published in the proceedings of the twelfth conference (1919) of this association, the committee says:

“The committee is of the opinion that a partial separation of the sources of state and local revenue is desirable, but that complete separation, by cutting the connecting cord between the state and local governments, tends to destroy the states’ sense of responsibility in the matter of local taxation. There is no

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81. The average inequality in the valuation of farm real estate among the counties of Kansas from 1913 to 1922 was 12.2 per cent, and in city real estate 16 per cent. On the basis of the probable misplacement of taxes, the inequality in the valuation of farm real estate among the counties was only about one-fourteenth as important as the inequality among individual parcels of farm real estate. See Kansas Agricultural Experiment Station Bulletin 232, pages 60 and 66.

82. This point does not apply to “true separation,” which is the principal topic discussed in these pages.

experience to justify the belief that, if the states turn over to the local governments independent sources of revenue, and adopt the theory that local taxation is an affair of purely local interest, we shall ever have a satisfactory administration of the tax laws by local officials."

**Would Remove the Incentive to Economy in State Expenditures.**—It is contended that separation would deprive the state government of the criticism, scrutiny, and check that come from the property-owning voters, *i. e.*, from the farmers, the home owners and other small taxpayers who constitute the majority of the voting public. It is alleged that extravagant expenditures of state funds would follow the removal of the restraining influence of these property owners. This contention is generally given greater weight in the case of "segregation" than in "true separation."

**Lack of Elasticity in State Revenue.**—By elasticity of revenue is meant the ease or readiness with which the amount of revenue can be adjusted to the needs of the state. It goes without saying that property taxation provides a highly elastic source of revenue, since the state can regulate the amount of revenue by adjusting the tax rate. It is contended that the flow of revenue into the treasury could not be so easily regulated under a system of separation. Under an inelastic system, the state would be severely handicapped in times of low income, and tempted to extravagance in times of abundant revenue.

#### 4. AN APPRAISAL OF ARGUMENTS FOR AND AGAINST SEPARATION.

The principal arguments in behalf of true separation are in themselves so obvious as to need little or no explanation. It is not likely that anyone, at all conversant with taxation problems, would doubt the desirability of reducing the tax burden on general property, or question the advisability of removing the incentive to unequal valuation of property among the counties. The important question is whether in adopting separation as a means of securing these advantages, we would merely fly to other ills we know not of. Chief among these possible "ills" are those mentioned in the above arguments against separation. If these "ills" have been over estimated, in so far as they apply to Kansas, or if we could avoid them and at the same time secure the advantages of separation, it would seem that the case for separation of state and local revenue in this state should appear in a rather favorable light.

**Possibility of Retaining Centralized Administrative Control.**—It should be possible to retain our centralization of administrative control over local taxation, under a system of separation

in Kansas. For instance, it does not appear necessary that the state tax commission should have to relinquish the authority it now has over assessment and equalization.<sup>83</sup> Another means of state control over local taxation lies in the fact that the maximum tax rates that may be levied for various purposes in the cities of Kansas are now limited by law.<sup>84</sup> It does not seem probable that separation of state and local revenue would necessitate an abandonment of these means of state control over local expenditures. Furthermore, the county unit plan of assessing property, as suggested in Section V of this bulletin, might serve to strengthen the influence of the state board of equalization over valuation of property within the counties.

Prof. Edwin R. A. Seligman is among those who hold that separation is not inconsistent with centralization of administrative control. He says:

“Separation of sources is one thing; control of administration is quite another thing. The warmest advocates of a more efficient administration through centralization are not in any way precluded from lending their support to the policy of separation.”<sup>85</sup>

**Revenue Statistics of States Do Not Indicate That Separation Results in Extravagance.**—Revenue statistics for 1912 and 1922 do not uphold the contention that separation of state and local revenue results in extravagant state expenditures. Table XVI gives the per cent increase in revenue from 1912 to 1922 for the state governments in eight states that have, or have had in recent years, a high degree of separation, compared with the per cent increase of state revenues in all states.<sup>86</sup> It will be seen that the per cent increase in state expenditures, and in expenditures for states, counties, and incorporated places was less in these eight states than in all states.

Every state has some degree of separation of state and local revenue, and in 1922 all states but one relied to some extent upon the general property tax.<sup>87</sup> This is due to the fact that every state is recognized to be the logical recipient of certain revenues result-

83. Chapter 408, Laws of 1907. Authority of the tax commission.

84. See revised Statutes of Kansas, 1923, sec. 79-1923 to 79-1933.

85. “Essays in Taxation,” eighth edition (1915), page 368.

86. The 8 states, footnote (b) Table XVI, included in this comparison did not have as high a degree of separation in 1922 as the eight states that relied least on the general property tax in that year (footnote 88). These states were chosen for the comparison in Tables XVI and XVIII because they are frequently cited as examples of separation. Separation in these states is discussed in detail in Columbia University Studies in Economics and Public Law, Volume 78, No. 2. Some of these states have resorted to general property taxation in recent years for a part of their state revenue.

87. According to data published by the United States Bureau of the Census, Pennsylvania alone derived no state revenue from the general property tax in 1922, and California derived only 0.01 of 1 per cent of its state revenue from this source.

TABLE XVI.—Per cent increase in taxes from 1912 to 1922, for state governments and specified civil divisions, in states having separation, and in all states. (a)

	Per cent separation in 1922.	Per cent increase in taxes.			
		State government.	Counties.	Incorporated places 2,500 and over.	Total, state, counties and inc. places.
All states.....	60.5	183	142	80	115
Eight states having separation (b).....	82.0	166	119	87	107

(a) Adapted from data published by the U. S. Bureau of the Census.

(b) The states included, and the per cent of separation in each, are: California, 100; Connecticut, 86.5; Delaware, 87.1; New Jersey, 38.4; New York, 79.5; Pennsylvania, 100; Vermont, 59.2; West Virginia, 68.1 See text for reason why these states were chosen for this table.

ing from the exercise of administrative functions. Furthermore, a majority of the states derive a part of their revenue from inheritance taxation, while several rely to a greater or lesser degree upon income taxation and taxation of public utilities or other specified classes of property.

If it were true that separation of state and local revenue is conducive to extravagant state expenditures, it would seem that there should be a direct relation between the per cent of separation and the increase in total state revenue. In order to construct a table comparing the degree of separation with the increase in state expenditures, all states were arrayed according to the per cent of separation in 1922, beginning with the states having the highest degree of separation. The array was divided into quartiles, and the per cent of separation and the per cent increase in revenue were determined for each quartile.<sup>88</sup> The result is shown in Table XVII.

<i>First quartile.</i>		<i>Second quartile.</i>		<i>Third quartile.</i>		<i>Fourth quartile.</i>	
Pennsylvania, 100	Illinois, 62.8	Utah, 40.1	Nevada, 31.7				
California, 100	Virginia, 62.2	Tennessee, 39.7	Colorado, 30.9				
North Carolina, 87.3	Maryland, 61.9	Washington, 39.0	Kentucky, 30.7				
Delaware, 87.1	Maine, 60.0	Wisconsin, 38.9	North Dakota, 30.6				
Connecticut, 86.5	Iowa, 59.4	New Jersey, 38.4	South Carolina, 29.4				
Oklahoma, 82.9	Vermont, 59.2	Michigan, 38.3	Mississippi, 28.5				
Rhode Island, 81.7	Ohio, 58.4	Florida, 36.9	New Mexico, 23.4				
New York, 79.5	Oregon, 53.2	Louisiana, 36.6	Kansas, 23.1				
Massachusetts, 70.2	Montana, 51.8	Alabama, 35.6	Idaho, 21.9				
Missouri, 69.8	Arkansas, 50.7	Texas, 34.9	South Dakota, 19.2				
West Virginia, 68.1	N. Hampshire, 44.1	Wyoming, 32.9	Arizona, 16.8				
Minnesota, 65.3	Georgia, 41.6	Indiana, 32.8	Nebraska, 7.8				

Table XVII shows that the increase in the expenditures for the state governments from 1912 to 1922 in the twelve states having the highest degree of separation in 1922 was less than in any of the other three groups of twelve states each. In fact these figures reveal a strong tendency toward an inverse relation between per cent of separation and increase in state expenditures. These figures are not presented to prove that separation of state and local revenue is conducive to economy in state government, but rather to suggest that arguments against separation on the ground that it would promote extravagance in state expenditures have probably been exaggerated.

**Increase in Net Public Debt Compared with Degree of Separation.**—Table XVIII shows that the net indebtedness of the state governments, in the eight states often cited as examples of separa-

<sup>88</sup>. The following shows the array of the states and the per cent of separation in each state in 1922:

TABLE XVII.—Increase in state taxes from 1912 to 1922, with per cent of separation of state and local revenue in 1922. (a)

	First 12 states (Quartile 1).	Second 12 states (Quartile 2).	Third 12 states (Quartile 3).	Fourth 12 states (Quartile 4).
Total state taxes in 1912, in thousands.....	\$141,409	\$61,414	\$76,805	\$26,893
Total state taxes in 1922, in thousands.....	367,965	185,169	229,495	84,841
General property tax for state government in 1922, in thousands.....	60,678	79,630	143,877	64,108
Per cent separation in 1922 (b).....	83.5	57.0	37.3	24.4
Per cent increase in state taxes, 1912 to 1922 (c).....	160.2	201.5	198.8	215.5

(a) Adapted from data published by the U. S. Bureau of the Census.

(b) The general property tax for state purpose, in per cent of all state revenue, is used as the basis for determining the degree of separation in each state. The states were arrayed according to the per cent of separation in 1922, the array divided into quartiles, and the weighted average per cent of separation calculated for each quartile.

(c) Based on weighted average for the states in each quartile.

TABLE XVIII.—Per cent increase in net public debt from 1912 to 1922, for state governments and specified civil divisions in states having separation of state and local revenue, and in all states. (a)

	Per cent separation in 1922.	Per cent increase in net public debt.				Total.
		State government.	Counties.	Incorporated places.	All other civil divisions.	
All states.....	60.5	170.4	237.9	63.2	718.6	127.6
Eight states having separation (b).....	82.0	256.7	147.0	50.1	781.2	88.6

(a) Adapted from data published by the U. S. Bureau of the Census.  
 (b) See footnote (b), Table XVI.

tion, increased more than in all states from 1912 to 1922. But the total net indebtedness of these eight states and of their subdivisions increased less than in all states in the same period.

Table XIX shows that the state governments of the twelve states having the highest degree of separation in 1922 increased their net indebtedness somewhat less than the state governments of all states. (Table XVIII.) It should also be noted that the increase in the third quartile of states is not materially different from that of the first quartile, and that the per cent increase in the second and in the fourth quartiles do not differ widely. Tables XVIII and XIX indicate no definite relation between the degree of separation of state and local revenue and the increase in net indebtedness of state governments.

**Possibility of Securing the Necessary Elasticity in a System of Separation.**—Elasticity of a revenue system refers to the ease or readiness with which the amount of revenue can be adjusted to the needs of the government. It is undoubtedly true that the amount of revenue from the sources suggested in this bulletin would vary somewhat from year to year, irrespective of the needs of the state government. The yield of the income tax would certainly vary with general prosperity within the state, as would the yield of the excise taxes on certain nonessentials. Revenue from the gross production tax on oil and minerals would vary with the gross value of these products and with the output of oil fields and of mines within the state. If the state should resort to means of raising revenue other than those suggested in this bulletin, such as a corporation income tax, the yield from these additional sources would also vary from year to year.

If Kansas should adopt a system of separation, by financing the state government from sources that have been suggested, the necessary elasticity might be obtained by two means: (1) The accumulation of a reserve fund in prosperous years; and (2) reliance on property taxation in case of a shortage of revenue in years of depression, after exhausting the reserve fund.

In case the revenue in any year should exceed the current requirements of the state government, the surplus might be credited to a reserve fund which could be drawn upon to meet the shortage in times of depression, when these taxes might yield less than the required amount of revenue. The maximum of this reserve fund should be fixed by law, preferably on the basis of a per cent of the total appropriations for the current year. If the suggested taxes

TABLE XIX.—Increase in net public debt of state governments, and of state and local governments, from 1912 to 1922, compared with per cent of separation of state and local revenue. (a)

	First 12 states (Quartile 1).		Second 12 states (Quartile 2).		Third 12 states (Quartile 3).		Fourth 12 states (Quartile 4).	
	State government.	State and local government.	State government.	State and local government.	State government.	State and local government.	State government.	State and local government.
Net debt in 1912, in thousands. . . . .	\$209,986	\$2,120,150	\$50,643	\$685,464	\$58,205	\$736,707	\$27,106	\$270,515
Net debt in 1922, in thousands. . . . .	534,488	4,025,249	163,104	1,855,552	155,015	2,038,529	82,936	777,453
Per cent increase in net debt from 1912 to 1922. . . . .	154.5	89.9	222.1	170.7	166.3	176.7	206.0	187.4
Per cent separation in 1922 (b). . . . .	83.5		57.0		37.3		24.4	

(a) Adapted from data published by the U. S. bureau of the census.  
 (b) See footnote (b), Table XVII.

should yield more than enough to maintain the reserve fund at the maximum, the "overflow" might be distributed among the local taxing districts. For instance, it could be dispersed for the benefit of the elementary schools, in proportion to the school census or on the basis of the number of teachers.

If these sources of revenue should in time prove to be insufficient to meet the needs of the state government, the state could again resort to general property taxation by levying a light tax on all taxable property. Several states that have had complete separation, have resorted to property taxation when the special sources of revenue have proved insufficient to meet state requirements. For example, Connecticut had no general property tax for state purposes in 1908; and New York, New Jersey and Delaware derived none of their revenue from general property in 1909<sup>89</sup> These states now derive a part of their revenue from property.<sup>90</sup>

**Public Scrutiny of State Expenditures Under a System of Separation.**— The above plan for securing the necessary elasticity in a system of separation would have the additional advantage of retaining a measure of scrutiny of state expenditures by property owners. This would help to overcome any possible tendency toward extravagance because of the supposed public indifference which is said to result from separation. The possibility of the suggested tax measures yielding enough to meet the requirements of the state government and leaving a surplus to be distributed among the local taxing units, would probably stimulate public interest in state economy. Furthermore, the possibilities of a shortage of state revenue, and the certainty of a property tax to meet such a shortage, should enlist the interest of property owners in behalf of economy in state expenditures.

The argument that separation would diminish public interest in state expenditures may be more valid in the case of "segregation" than under "true separation." It is probable that state appropriations would be subject to less public scrutiny if state revenue were collected from public service corporations than if it were obtained through personal income and excise taxes. In the latter case, more voters would be directly interested in the state's tax dollar.

In a state like Kansas where such a large share of the state revenue is collected from owners of tangible property, too much might

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<sup>89</sup>. Report by the Department of Commerce and Labor to the President of the United States, June 10, 1910, quoted by the Kansas State Tax Commission, second report to the legislature, 1911, page 11.

<sup>90</sup>. See footnote 88.

be claimed for general property taxation as a means of enlisting the voters' effective interest in state economy. Citizens other than owners of taxable property also have the right to vote. They are growing more numerous, and they pay no direct taxes under the present system in Kansas. What is there to prevent them from using their franchise to boost the cost of government? If it is true that one voter helps to keep down the cost of the state government because he knows that he pays direct state taxes, is it not equally true that another voter would favor more government service, and consequently larger expenditures, because he does not pay direct taxes? The best way to secure a maximum of effective public scrutiny of government expenditures would be to devise a system of taxation by which the greatest possible number of voters would participate consciously in the support of government. For this reason the author believes that the proposed tax measures would enlist the active interest of a larger number of voters in behalf of economical use of public funds in Kansas.

## XII. CONCLUSION.

The need for tax revision in Kansas and the suggested tax program, as presented in this bulletin, are based on three premises: (1) That the growing cost of state and local government falls on tangible property, especially on real estate, in a state where general property taxation is almost the only means of raising revenue; (2) that continued reliance on general property taxation, notwithstanding fundamental changes in the economic life of the state, results in an unequitable distribution of the cost of government among the people of the state; and (3) that there is in the state an abundance of taxable capacity which escapes taxation under the present systems, but which would bear its portion of the cost of government under a revenue system suited to the economic life of the state.

Property taxation itself is in need of improvement in Kansas, from the standpoint of valuation and classification of property. Furthermore, the author has taken the position that the property tax should be supplemented by other forms of taxation, and has suggested certain revenue measures to achieve this purpose. Are these measures related to each other and to the property tax in such a way as to form a logically arranged whole, or are they merely separate and unrelated tax measures? The author believes that they are sufficiently related to constitute, with the property tax, a revenue system.

Property taxation is the principal part of the revenue system of every American state, and it will undoubtedly continue for many years to be the chief means of raising revenue in Kansas. While it may be said, without fear of effective contradiction, that the general property tax is obsolete as the only tax, it is nevertheless a proper part of our fiscal system, since the same criticism could be made, with equal or greater force, of any other tax as the only means of raising revenue. It then remains to be suggested how the measures proposed in this bulletin, to supplement property taxation in Kansas, are related to the property tax and to each other in a system of taxation in this state.

A personal income tax would be a logical supplement to property taxation in that it would reach unfunded income, *i. e.*, income derived from sources other than property. Furthermore, the burden which it would impose on the taxpayer would have a measure of elasticity with respect to his ability to pay taxes. In years when his income is diminished by reason of business adversity or by other causes, his income tax would be automatically reduced. This reduction would be more than in proportion to the reduction in the income, since the tax rate would be progressive. The tax on property owners would be lighter because those who receive income from sources other than taxable property would bear a part of the cost of government.

The suggested tax on oil and minerals would be a means of appropriating a portion of this natural wealth for public use. Mineral wealth is different from agricultural and urban lands in that use means exhaustion—a difference which gives to these deposits a special public interest. If a portion of the mineral wealth of the state were appropriated for the support of government, the benefits of the proposed tax would be diffused widely, for the benefit of the people as a whole.

It is believed that a tax on certain nonessentials of wide use would fit into a system of taxation, since it would reach the taxable capacity of many who pay no property taxes and who would not be reached by the personal income tax. The fact that vast sums are spent for certain nonessentials indicates that the masses have a measure of surplus wealth, a portion of which could be appropriated and used to meet the cost of the growing service functions of government,

It is admittedly sound in principle that a substantial part of the

cost of highways should be borne by those who use the highways, because such use confers direct commercial and personal benefits upon the individual. Since motor vehicles have come into wide use, gasoline taxation offers a practical means of applying this principle in raising revenue for the construction and the maintenance of highways. This revenue should be used for no other purpose, and therefore the gasoline tax would in effect provide a cooperative arrangement whereby the "motorized public" would secure for themselves the advantages of better roads.

It is an acknowledged fact that the past two or three decades have witnessed a rapid expansion and a wide diffusion of the service functions of government. Since this development has gone hand in hand with a general increase in the economic well-being of the people of the state, it follows that the ever-widening dissemination of the benefits of government should be accompanied by a wider diffusion of the cost of government. The author believes that the suggested tax measures, supplementing property taxation, are so related to each other and to the property tax that their adoption would secure a wider and a more equitable distribution of the cost of state and local government in Kansas.

