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DEPARTMENT OF AGRICULTURAL ECONOMICS

THE TAXATION SYSTEM OF KANSAS[1]

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INTRODUCTION

The various governmental units, namely, the United States, the state of Kansas, and the local subdivisions-county, township, city, and school district-annually spend large sums of money to furnish a wide variety of services for their citizens. Many of these services are of such nature that they could not be performed, at least not so effectively, by individual enterprise. If school teaching were financed solely by the parents, only those children who were born to parents of means would receive an education. Likewise in the case of regulation, a field which is demanding increasing governmental attention, individual enterprise would be at a loss to accomplish anything. When a manufacturer or handler of food products fails to observe sanitary precautions the government official is the only person equipped to cope effectively with the situation. Furthermore, the increasing complexity of economic society demands the application of research methods to the problems of business. The various governmental departments easily lead in this field because of the

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facilities at their disposal and because their findings are more authentic since there is no reason for bias or distortion of facts when the government performs the work.

And so there might be enumerated, at length, the things that the government does, all of which cost money. Each governmental unit has certain specific duties to perform. In some cases, several governmental units perform similar duties, as where the state and city as well as the school district have expenditures for education. Likewise, most governmental bodies have expenditures for road building. Each governmental unit conducts its own business entirely apart from every other unit. Occasionally there are cases where the larger governmental body subsidizes its subdivisions, giving rise to what is known as federal, state, or county aid. Federal aid for road building and for the teaching of vocational agriculture in high schools are two well-known examples of this inter-relation between governmental jurisdictions.

WHERE THE TEX MONEY COMES FROM

To provide the funds necessary for government expenditures it is necessary that the people be taxed. The word "taxes" to many people immediately implies the idea of something difficult. Newspaper and journal articles on taxation are more often than not passed over for something which seems easier reading. The person who knows the minutest details concerning how his own income is secured oftentimes has but the haziest outline in his mind of how the government, of which he is a part, secures its revenue.

The taxation system, the other side of the government's spending operations, is not particularly simple to comprehend, but if each of the various taxes is considered as an effort on the part of the taxing jurisdiction to swell the total income, just as an individual goes into many different ventures to increase his individual income, the tax structure may not seem so formidable. The tax structure is by no means a perfect arrangement. It shows no signs of uniformity or system. But it does bear unmistakable evidence of the way the system evolved. In the earliest days, when the government was called upon to do only a few things, one tax usually sufficed to take care of all needs. This was most often the general property tax. As the government needed more money it looked to new sources of revenue and so one by one various taxes were added until at the present time there is a heterogeneous array. It is in the interest of giving a picture of these various taxes and the amount of revenue they yield that this circular is written.

There are state, county, city, township, and school district taxes. Table I shows the state and local taxes levied in Kansas for the fiscal year ended June 30, 1928, classified by kind of tax. It shows that for this year more than 108 million dollars were collected in taxes in Kansas. And this is not all. There are many local collections such as county fees and city licenses which are not included in this table because there are no records that may be consulted to arrive at a total. Furthermore, the federal government takes, directly, more than 20 million dollars out of the state each year through its own taxing system. Indirectly, through customs duties, excises, and other taxes, the federal government takes many millions more. (A brief description of federal finances is given in the appendix.) Taking into consideration these additional taxes, it could be conservatively estimated that Kansas pays a tax bill of over 130 million dollars annually. Kansas statistics, prepared by the governor's office, give the population of Kansas in 1927 as 1,837,514. Last year the payment for the services of government was, on the average, more than $70 for each person in the state.

Table II carries the story further by showing to what taxing jurisdictions the tax money goes. Table III combines Tables I and II and shows to what taxing jurisdictions the income from specific, taxes goes. Table IV is given in percentage and shows what part the various taxes contribute to the total revenue of each taxing jurisdiction. The characteristic thing about this table is the large contribution that the general property tax makes to all taxing divisions. In local divisions it alone accounts for practically 100 per cent of the revenue. Only in the state government is the larger per cent of the revenue raised by taxes other than the tax on general property.

TABLE I.—STATE AND LOCAL TAXES LEVIED IN KANSAS FOR THE FISCAL YEAR ENDED JUNE 30, 1928, CLASSIFIED BY KIND OF TAX. (*a*)

TAXES.	Per cent of total tax.	Amount.
All taxes	100	$108,629,711.63
General property tax (includes moneys and credits tax)	76.0	$82,550,848.45
Special property assessment	6.1	6,599,602.69
Soldiers' compensation	2.2	2,394,965.04
Gasoline tax	4.7	5,080,826.77
Motor license tax (*b*)	3.3	3,560,180.48
Income from educational, charitable, penal, and patriotic institutions	2.7	2,963,178.35
Miscellaneous—boards, commissions, etc	2.4	2,632,514.86
Insurance companies	.6	665,147.91
Inheritance tax	.7	715,655.69
Corporation tax	.3	333,695.73
Dog tax	.2	203,922.00
Excise tax	.2	239,773.66
Cigarette stamp tax	.6	689,400.00

(*a*) Data obtained from office of Tax Department of the Kansas Public Service Commission and prepared by the state budget director.

(*b*) This figure does not include the 50 cents per license sent to Secretary of State's office or the 25 per cent retained by township. Distribution of motor license revenues is changed by 1929 Kansas Highways Act.

TABLE II.—STATE AND LOCAL TAXES LEVIED IN THE STATE OF KANSAS FOR FISCAL YEAR ENDED JUNE 30, 1928, CLASSIFIED BY GOVERNMENTAL UNITS. (*a*)

DIVISIONS.	Per cent of total tax.	Amount.
All taxes	100	$108,629,711.63
State	18.0	$19,599,901.13
City	17.8	19,380,505.61
County	23.5	25,474,448.31
School districts (*b*)	33.3	36,175,876.42
Township	6.5	7,043,909.68
Special assessment districts	.9	955,070.48

(*a*) Data obtained from office of Tax Department of the Kansas Public Service Commission and prepared by the state budget director.

(*b*) Includes schools in first, second, and third class cities and common schools, rural high schools, and community high schools.

TABLE III.—STATE AND LOCAL TAXES LEVIED IN KANSAS FOR THE FISCAL YEAR 1928, CLASSIFIED BY KIND OF TAX AND BY GOVERNMENTAL DIVISIONS. (*a*)

TAXES.	State.	County.	Township.	City.	School districts.	Special assessment districts.
All taxes	$19,599,901.13	$25,474,448.31	$7,043,909.68	$19,380,505.61	$36,175,876.42	$955,070.48
General property taxes	$7,386,857.87	$18,412,153.08	$7,043,909.68	$13,735,973.40	$35,971,954.42	....
Special property assessment	....	....	....	5,644,532.21	....	$955,070.48
Soldiers' compensation	2,394,965.04	....	....	....	....	....
Income from educational, charitable, penal, and patriotic institutions	2,963,178.35	....	....	....	....	....
Miscellaneous boards, commisions, etc	2,632,514.86	....	....	....	....	....
Gas and motor license taxes (*b*)	1,578,712.02	7,062,295.23	....	....	....	....
Cigarette stamp tax	689,400.00	....	....	....	....	....
Insurance companies	665,147.91	....	....	....	....	....
Inheritance tax	715,655.69	....	....	....	....	....
Corporation tax	333,695.73	....	....	....	....	....
Excise tax	239,773.66	....	....	....	....	....
Dog tax	....	....	....	....	203,922.00	....

(*a*) Data obtained from office of Tax Department of the Kansas Public Service Commission and prepared by the state budget director.
(*b*) Amounts apportioned to state and counties are calculated from data published by state budget director.

TABLE IV.—STATE AND LOCAL TAXES LEVIED IN KANSAS FOR THE FISCAL YEAR 1928, EXPRESSED IN PER CENT OF THE REVENUES OF EACH GOVERNMENTAL DIVISION. (*a*)

TAXES.	State.	County.	Township.	City.	School districts.	Special assessment districts.
All taxes	100.00	100.00	100.00	100.00	100.00	100.00
General property taxes	37.69	72.28	100.00	70.88	99.44	....
Special property assessment	....	....	....	29.12	....	100.00
Soldiers' compensation	12.22	....	....	....	....	....
Income from educational, charitable, penal, and patriotic institutions	15.12	....	....	....	....	....
Miscellaneous boards, commissions, etc	13.43	....	....	....	....	....
Gas and motor license taxes	8.06	27.72	....	....	....	....
Cigarette stamp tax	3.52	....	....	....	....	....
Insurance companies	3.39	....	....	....	....	....
Inheritance tax	3.65	....	....	....	....	....
Corporation tax	1.70	....	....	....	....	....
Excise tax	1.22	....	....	....	....	....
Dog tax	....	....	....	....	.56	....

(*a*) Data obtained from office of Tax Department of the Kansas Public Service Commission and prepared by the state budget director.

DESCRIPTION OF SOME OF THE PRINCIPAL TAXES

General Property Tax.—Invariably, when taxes are spoken of the general property tax comes to mind. A description of the rights and duties of taxpayers and of the machinery used in collecting the tax may be well worth while here.

The deputy assessors, working under the direction and control of the county assessor, deserve first mention in the discussion of our taxation system. The law requires that the county assessor appoint the township trustee as deputy assessor for the township in which the trustee was elected. In the case of first and second class cities, which comprise a separate assessment district, the county assessor appoints such number of deputies as will be necessary to make the assessment. The deputy assessors receive $5 per day in the country and $4 per day in the city for the time actually spent at their duties. Much depends upon the man who acts as deputy assessor. If it were generally realized what an important function he performs, more attention would be given to his special fitness for the job and he would be given greater recognition for his services.

The duty of the deputy assessor is to assess in his district all property that is subject to taxation, at its actual value in money. The assessor is himself to determine the actual value, after having personally viewed the property, both real and personal. The assessor's valuation comes after the owner has placed a value upon the property. Any change from the value fixed by the owner should be made by the deputy assessor in the presence of the owner or, if not so made, the owner should be notified of the change.

All real property in the state is assessed once in every four years except when the board of county commissioners in any county may by resolution order an assessment of real estate for such county for any even year. Personal property is assessed annually.

March 1 is the day when property is to be listed and taxed and when the deputy assessors begin work. In general, personal property is to be listed and taxed in the assessment district where it is located on March 1. Money and credits, aside from those pertaining to a business, are listed where the owner resides, while those pertaining to a business are assessed at the place of business,

During the assessment period, the county assessor requires that the deputies turn over to him, as often as may be desired, the real-estate assessments and the personal property statements of persons assessed so that he may prepare the assessment roll, which must be completed not later than the Saturday preceding the third

Monday in May of each year. In all counties with a population of less than 55,000 the county clerk is the *ex officio* county assessor.

The county assessor is to instruct his deputies upon all matters relating to values and he has the right to advise the deputies what the values should be, but does not have a right to coerce the deputies in fixing values. He does, however, have the right to correct any clerical errors found in the returns of the deputy assessors. If, in the opinion of the county assessor, the valuation returned by the deputy assessor does not conform to statutes, that is, actual values in money, it is his duty to return the statements to the assessor and ask that the necessary changes be made therein. In the event of refusal by the deputy assessor to make changes, the county assessor should bring the matter to the attention of the county board of equalization. The board of county commissioners constitutes the board of equalization for the county.

The county board of equalization meets each year on the third Monday in May, at which time they equalize the valuations as returned by the deputy assessors and hear and determine any complaint made by any taxpayer as to the assessment and valuation of property. The session of the board is limited in length to 10 days, at the expiration of which time it adjourns to a time at least 10 days after such adjournment, when it again reconvenes and remains in session for not more than three days. The final adjournment of the county board must not be later than June 20.

After the first session of 10 days has expired there is no longer authority to equalize values so far as the county board is concerned. The three-day session provided for after the adjournment of the 10 days is only for the purpose of hearing complaints from those who have been assessed and have been notified that it is the intention of the board to increase their assessments.

Any person feeling aggrieved at the county board's action may, within 30 days after the decision, appeal to the State Board of Equalization, where a hearing is given the party and action taken thereon by the State Board.

Immediately after the adjournment of the county board of equalization, the county clerk prepares an abstract of the assessment rolls of his county and forwards it to the State Tax Commission, on or before the first day of July.

The State Tax Commission meets as the State Board of Equalization on the second Wednesday in July of each year. The State Board has power to equalize the assessment of all property in the state, and its action is final.

After values are finally equalized, they form the tax basis of the state, county, township, city, and school district. The State Tax Commission, with this total value as a basis, determines the rate of taxation necessary when applied to the entire value of the state, to produce the revenue (together with other special state taxes) required to pay the debts, obligations, and running expenses of the state government for the coming year. The county commissioners in each county use the total equalized value of that county, as determined by the State Tax commission, and adopt a rate of taxation which when applied to that value will produce the necessary revenue to pay the salaries of county officers, the running expenses and the debts and expenses of the county falling due in the coming year. In the same manner, the officers of each township, each city, and each school district adopt the necessary rate, which rate in every case must be within limits prescribed by law.

After all levies are certified to the county clerk, it is his duty to proceed to determine the sums to be levied upon each piece of real estate and personal property. On or before the first day of November, he delivers the completed list to the county treasurer. The county treasurer is then charged with the amount of taxes assessed on the tax roll in his county. All taxes are due on the first day of November of each year. A lien attaches to real property for taxes due at that time. They may be paid in two installments, one-half on or before December 20 and the other half on or before June 20, but if the first installment is not paid when due, the whole amount of tax becomes delinquent and a penalty of 5 per cent is charged thereon. All taxes for the preceding year delinquent after June 20 involve an additional penalty of 5 per cent.

Gasoline and Motor License Taxes.—These two taxes may be discussed together, since the bulk of the revenue from both sources goes into the state highway fund. The gasoline tax is collected by the state oil inspector and all of the revenue from this source is turned over to the state highway fund.

The motor license tax is collected by the county treasurer's office. After the fee for registration has been deducted, the remainder of the tax is transmitted monthly by the county treasurers to the state treasurer to be placed in the state highway fund.

The state highway fund is expended in the following manner:

1. Maintenance of the State Highway Commission and the State Highway Department. The sum of $500,000 is allotted annually for this purpose.

2. For county and township roads. The sum of $900,000 (after April 1, 1930) is distributed quarterly into a fund known as the county and township road fund. Forty per cent of this fund is distributed equally to the 105 counties and 60 per cent is apportioned and distributed on the basis of the assessed valuation of the respective counties. This annual item of $3,600,000 is under the control of the county commissioners. For all counties that are not under the county unit system, provision is made that not less than 50 per cent of the fund is to be used on township roads and bridges.

3. The remainder of the state highway fund is expended under the direction of the State Highway Commission.

Inheritance Tax.—This tax may best be described by construction of a table showing its rates and exemptions. Heirs of the deceased person are grouped into three classes on the basis of relationship. Under class A comes the wife of the deceased, the surviving husband, lineal ancestors, lineal descendants, adopted child or children, lineal descendants of any adopted child, the wife or widow of a son, or the husband of a daughter of the decedent. The

TABLE V.—RATES AND EXEMPTIONS OF KANSAS INHERITANCE TAX. (*a*)

Net estate after exemption is deducted.		Class A (1).			Class A (2).		
Exceeding—	Not exceeding—	Rate	Tax.	Total.	Rate	Tax.	Total.
....	$25,000	½	$125	$125	1	$250	$250
$25,000	50,000	1	250	375	2	500	750
50,000	100,000	1½	750	1,125	3	1,500	2,250
100,000	500,000	2	8,000	9,125	4	16,000	18,250
500,000	....	2½	....	....	5	....	....

Net estate after exemption is deducted.		Class B.			Class C.		
Exceeding—	Not exceeding—	Rate	Tax.	Total.	Rate	Tax.	Total.
....	$25,000	3	$750	$750	5	$1,250	$1,250
$25,000	50,000	5	1,250	3,000	7½	1,875	3,125
50,000	100,000	7½	3,750	6,750	10	5,000	8,125
100,000	500,000	10	40,000	46,750	12½	50,000	58,125
500,000	....	12½	....	....	15	....	....

(*a*) Revised Statutes of Kansas, 1923.

exemption for the wife of the deceased is $75,000 and for all other members of the class the exemption is $15,000. Since the rates on the estate of the widow are different than for those of the other members of the class, Table V shows class A divided into parts 1 and 2. Part 1 gives the rates for the wife of the deceased and part 2 the rates for all other members of the class. Class B consists of the brothers and sisters of the decedent, and for this class the exemption is $5,000. Class C consists of relatives of all degrees of relationship except those included in classes A and B, and also includes persons who were not related to the deceased. There is no exemption for this class.

Cigarette Tax.—A recent tax enacted by Kansas is that upon the sale of cigarettes. The law provides for licensing the dealers as well as collecting a 2-cent tax on the sale of 20 cigarettes and a 1-cent tax on the sale of 50 cigarette papers. The annual license fee for permission to sell cigarettes is $50 for cities of the first and second class and $25 in other places. The cigarette license fees go to the county general fund while the money from the stamp tax goes to the state.

Miscellaneous Taxes and Fees.—It would not be possible or advisable here to enumerate the long list of taxes and fees that each year help to swell the revenue of the state and local governments. A helpful division may be made between taxes which are paid into the state treasury and those which help support local institutions. A few of the business activities for which the state requires a license are the operation of a hotel or rooming house, the operation of an employment agency and the business of manufacturing commercial brands of feeding-stuffs and fertilizers. Occupational and professional licenses such as those for a certified public accountant, a barber, a dentist, a doctor, and an embalmer are also required by the state. In addition, there are such miscellaneous licenses as those for hunting and fishing and for the manufacture, sale and operation of an aëroplane. Then there is a multifarious group of fees payable into the state treasury. In fact, there is more likely to be, than not, a fee for practically every service performed in an official way by the state. Examples of the large list of fees collected by the state are those required by candidates filing for office, for grain inspection and weighing, and for oil inspection.

The local governments do not lag far behind the state in the collection of licenses and fees. In the county courthouse, numerous fees are collected by the county clerk, treasurer, clerk of district court, register of deeds, sheriff, and county attorney. Cities are also permitted to levy taxes upon practically all of the callings, trades, professions and occupations practiced within the city limits. A recent survey[2] shows that wide variation exists among the different cities in the kinds of license taxes used and in the amount of revenue secured from same.

Among the numerous local taxes is the poll tax, which requires that all males between the ages of 21 and 50 years are required annually to pay $3 to the township trustee for the benefit of the public roads.

SOME SPECIAL TAXING PROBLEMS

Taxation of Corporations.—There is such a wide diversity of method in taxing corporations in Kansas that it is difficult to discuss the subject in a general way. Two important types of corporations—banks and insurance companies—because of their special treatment by taxing officials, are discussed under separate headings. It does not, by any means, follow that all remaining corporations are taxed alike. Express companies immediately come to mind as other corporations being taxed in a way peculiar to themselves. In the case of express companies a 4 per cent tax is applied on the gross receipts in addition to a tax on the physical property.

For the great bulk of corporations, taxation is applied in three ways:

1. The corporation is required to list in the township or city where the principal office is kept, the full amount of stock paid in and remaining as capital stock at its true value in money. This stock is taxed the same as other personal property. Such part of the capital stock invested in real or personal property which has been particularly specified and given to the assessors for taxation is deducted from the amount of capital stock.

Shares of stock in domestic corporations are not listed by the shareholders, but are listed for taxation by the officials of the company. This is likewise true of shares of stock in foreign corporations where the principal office is located in Kansas. If the principal office is not located within the state, the individual owner of shares of stock must list such shares for taxation.

2. Charter fees, which are really license fees, are charged for the privilege of incorporation. Each application, by either a foreign

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2. Kansas League of Municipalities, Bulletin 66.

or a domestic corporation, to engage in business in the state, must be accompanied by a fee of $25.

3. Annual license fees are charged the corporation. Each corporation is required to make an annual report to the secretary of state showing the condition of the corporation. At the time of filing this report, every corporation, except mutual telephone companies, is required to pay an annual fee, the payment to be based upon the amount of paid-up capital stock. When the paid-up capital stock does not exceed $10,000, the annual fee is $10. The fee increases in proportion to the amount of capital stock, amounting to $2,500 in the case of corporations with capital stock exceeding $5,-000,000. Mutual telephone companies, which do not come under the broad provision of the law, pay an annual fee equal to one-twentieth of 1 per cent of their capital stock. The license fee applies to corporations organized outside the state as well as to corporations within the state, except that in the case of foreign corporations the annual fee is collected upon the proportion of the issued capital stock of the corporation that is devoted to its Kansas business.

Taxation of Banks.—Bank taxation in Kansas as well as in all other states has been shaped almost entirely by federal statute. The reason is simple. The United States government has a system of national banks all over the country. Being agencies of the federal government, the national banks were not subject to state taxation unless permission to tax was given by the federal government. Permission was granted, but in order to assure uniformity and avoid sectional discrimination, the federal government ruled that if the states should tax the national banks it must be done according to a prescribed form. This form of taxation came to be the rule for state banks as well, for state legislaturessaw that it would be discrimination to tax their own banks differently from the manner that national banks were taxed. To understand the Kansas system it is necessary, then, to review briefly the history of the federal statute which has come to be the foundation stone of bank taxation.

Soon after the national banks were established, congress gave the states the following rights: (1) To tax the bank's real estate. (2) To tax the shares of stock in the hands of the shareholders of the bank at their true value.

No difficulty has existed in enforcing the first of these methods of taxation, but the second, because of two restrictions that it contains, has been the source of much friction in the last few years. The two restrictions imposed upon the taxation of national bank shares are: (1) That the rate must not be higher than that upon other moneyed capital in the hands of individuals that is in competition with banks: and (2) that it must not be higher than that levied upon the shares of state banks.

When all property was taxed at the "uniform and equal" rate of the general property levy, these restrictions did not cause difficulty. It was only when several of the states, including Kansas in 1924, passed amendments to their constitutions allowing classification of property for taxation purposes and giving a low rate to intangibles that any difficulty was encountered. The national banks immediately claimed that their shares should be taxed under the low rate on intangibles because "the moneyed capital in the hands of individuals" was competing with them and was being taxed under the intangible rate. Their claims were made authoritative by a supreme court decision in the Richmond case of 1921.

Prior to this decision only shares of state banks were deemed to be in competition with national banks and for all intents and purposes restrictions (1) and (2) mentioned before meant the same. The Richmond decision held that a material portion of intangibles, taxed in Virginia (one of the states having the intangible tax) at a lower rate, came into competition with national banks in the loan market. This threw a bombshell into the matter of bank taxation in states having the classified property tax.

The whole matter of bank taxation is in a very unsettled and unsatisfactory state at present. A movement is under way to have the section of the federal statute having to do with bank taxation revised so that banks can be placed in a class by themselves for tax purposes. Some spokesmen for the bankers oppose this move and maintain that the federal amendments of 1923 and 1926 providing four alternative methods of national bank taxation, each practically exclusive of the others, will solve the problem if given time. An income tax on banks is one of the four alternative methods that has been provided for in the amendments of 1923 and 1926.

In Kansas it was clearly expressed by the 1927 legislature that bank shares should not carry the low rate, for the statute provided that "moneyed capital in the hands of individual citizens coming into competition with the business of national banks" should not be subject to the low-rate mill tax, but to the general property tax.

No change has been made in the taxation of Kansas banks. The general property tax is levied (1) on the bank's real estate and (2) on the shareholders for the shares of stock in their banks. Practically, the tax on shares has been collected at the bank although levied against the shareholders.

Taxation of Insurance Companies.—In the taxation of insurance companies, the state law makes a sharp distinction between insurance companies organized under Kansas laws and those organized under the laws of any other state or foreign country. In the case of companies organized outside the state, the superintendent of insurance assesses and collects a tax upon all premiums received by the company on business done in the state. Where the company is organized under the laws of a foreign country the tax is 4 per cent per annum, and in the case of a company organized under the laws of some state other than Kansas the tax is at 2 per cent per annum.

Insurance companies organized under Kansas laws are subject to the general property tax. Stock, life, and fire insurance companies are taxed first of all on their real estate and second on the net value of all of their other assets in excess of the legally required reserve necessary to reinsure outstanding risks and unpaid policy claims. Then there is a provision that nothing in the law shall operate to exempt from taxation the paid-up capital stock of such company. The provisions for taxing mutual life and fire insurance companies is the same except that the provision regarding capital stock is omitted, since those companies do not have capital stock.

Tax officials feel that the home insurance companies should be subjected to a premium tax similar to that now levied against out-of-state companies doing business in Kansas. In some companies the legally required reserve necessary to insure outstanding risks and the unpaid policy claims exceeds the value of all the assets of the company, and if it does not own real estate it is exempted by provisions of the law from all taxation whatsoever. Even the provision regarding taxation of paid-up capital stock in case of stock companies is made ineffective by investing the capital stock in tax-exempt bonds.

All insurance Companies doing business within the state are taxed $50 annually for the general school fund of the state.

Taxation of Intangible Property.—A discussion of taxation of intangible property is not complete unless something is said regarding the broader subject of classification of property for taxation purposes. Property is a broad term. It may denote the ownership of a farm, a city residence, an automobile, a share of stock in a corporation, or a farm mortgage. All will recognize that there are fundamental differences in the characteristics of the above-mentioned examples of property. But the various forms of property do fall into certain well-defined classes, namely, real estate, tangible personal property, and intangible property. Real estate or real property consists of land and buildings and is characterized by immobility and visibility. Because of these characteristics, it cannot be moved out of one taxing jurisdiction to another where laws of taxation are more favorable. Neither can it be hidden from the careful tax assessor. Tangible personal property such as live stock, motor cars and household goods constitute a second class, which is relatively more mobile than real property.

Intangible property, a third class, includes "money, notes, mortgages, stocks, bonds, 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." Furthermore, intangible property differs from the other classes in that it is representative wealth. Bonds, stocks and mortgages have value not in themselves but because they represent land, buildings, machinery and the like. The property which intangibles represent is taxed under the general property levy and when they, too, are taxed under the same levy there exists a clear case of double taxation. Intangible property can easily be moved from place to place and is invisible so far as the tax assessor is concerned.

The striking differences in appearance, in productivity, and in mobility between the classes of property are clearly evident. And yet until 1924 Kansas state law required that all classes of property should be taxed in a uniform manner. In 1924 by constitutional amendment the "uniform and equal" clause of the constitution was modified to read: "The legislature shall provide for a uniform and equal rate of assessment and taxation, except that mineral products, money, mortgages, notes and other evidences of debt may be classified and taxed uniformly as to class as the legislature shall provide." The legislature of 1925, acting under the authority conferred in the amendment, passed the so-called "money and credits" act (amended in 1927) which provided that intangible property should bear a lower rate than real estate or tangible personal property. The act treats mortgages differently from other kinds of intangible property. It provides that the owner of a mortgage must at the time of recording his mortgage, pay a registration fee, which fee is paid but once during the lifetime of the mortgage. The fee is at the rate of 25 cents on each $100 of the obligation secured. For all other intangibles the law provides that the owner shall be subject to an annual tax of 50 cents on each $100 of the fair cash value of the property. (Until 1927, the intangible tax was 25 cents on each $100 of value.)

The revenue derived from the intangible tax is divided as follows: One-third goes to the school district general fund, one-third to the city or township, one-sixth to the county, and one-sixth to the state,

Table VI gives a picture of the tax yield from intangible property before and after the passage of the money and credits act. Many intangibles came out of hiding when the new law went into effect. There would necessarily have to be a great increase in amount of intangibles on the tax rolls to give the same yield under the low rate as a much smaller amount would yield under the general property rate. Up to the present time, the low-mill rate has not given a yield so large as when intangibles were taxed the same as real property.

The legislature of 1927 added another phase to the taxation of intangibles by passing the "secured debts act." This act provides that the bonds or obligations of any foreign government, state or other political subdivision, which are not legally exempted from taxation may, if the owner desires, bear a special rate of taxation of one-tenth of one per cent per year for each year until maturity of the bond. The total tax for each year until the bond's maturity is paid at the time the owner makes application to the county treasurer or state treasurer to have his bonds listed under the act. Stamps issued by the state treasurer and placed on the bond give evidence that the tax has been paid. The taxes collected from this act are distributed, one-half going to the state general fund and the other half going to the general funds of the counties, the distribution to the counties being on the basis of their respective assessed valuations.

The intangible tax has been criticized before and since its passage. Criticism has been leveled at the tax from two angles. First, because it is believed that persons, the greater part of whose property consists of intangibles, are carrying less than their share of the tax burden. Second, because it is thought that the tax has fallen far short of furnishing the revenue that was expected of it. The first criticism seems far more important than the second. There is evidence that many persons have the greater part of their wealth

TABLE VI.—TAX YIELDS OF INTANGIBLE PROPERTY BEFORE AND AFTER THE MONEY AND CREDITS ACT. (*a*)

	1924.	Money and credits act went into effect.	1925.	1926.	Intangible rate was raised from 2.5 to 5 mills.	1927.
Money and credits on tax roll (mortgages excluded)	$55,000,000 (app'x) (*b*)		$148,667,608	$159,065,615		$153,528,779
Tax contribution of money and credits (mortgages excluded)	1,210,000 (app'x) (*c*)		371,669 (*d*)	397,664 (*d*)		767,644 (*f*)
Mortgages on tax roll	$65,000,000 (app'x) (*b*)		$191,588,739 (*e*)	$172,638,144		$192,966,128
Tax contribution of mortgages	1,430,000 (app'x) (*c*)		478,616	431,162		482,015
Tax contribution of all money and credits	$2,640,000 (app'x)		$850,285	$828,826		$1,249,659

(*a*) Data obtained from the office of the tax commissioner, Kansas Public Service Commission.

(*b*) During the period 1912 to 1919, inclusive, the average valuation on the tax rolls was approximately $65,000,000 for mortgages and $55,000,000 for all other money and credits. This figure is used for 1924.

(*c*) To compute contribution of money and credits before the intangible tax was passed, 22 mills, approximately the average levy throughout the state, is used.

(*d*) During 1925 and 1926, the first two years after the passage of the intangible tax, the 2.5-mill rate on money and credits was in effect.

(*e*) Mortgages registered in first ten months that law was in effect.

(*f*) In 1927 the 5-mill rate was applied on money and credits. Mortgages still retain the 2.5-mill registration fee.

invested in securities which bear the low rate under the intangible tax. The intangible tax is a great boon to them. Formerly they were required to pay the general property rate on wealth, which could not be undervalued, but which could easily be hidden. The temptation was great. The honest man paid the high rate while he knew that his less scrupulous neighbor did not report his intangibles. At present the situation is very different. No one is penalized for his honesty for the rate is low enough so as not to discourage anyone from listing his intangible property. Justice as well as revenue should be considered in a tax. The intangible tax has certainly brought justice to those honest enough to declare their intangibles. The question of whether those owning intangible property are assuming their share of the tax burden brings up an entirely different problem. And it seems to be a problem regardless of whether the general property rate or the low-mill rate is applied. Intangibles contribute a comparatively small share of the tax load under either plan. It would seem, then, that the low-mill rate should not be criticized, for it is surely more just than the general property rate, but that other methods of taxing the owners of intangible securities should be found. A personal income tax has been suggested as a tax which would reach the incomes of those owning intangible securities and thus serve to fill in a gap in the taxation structure.

The second criticism, that the low-mill rate is not furnishing a tax yield as large as when intangibles were assessed under the general property rate does not seem the occasion for any alarm. While the intangible tax has not justified itself from a revenue standpoint, we must not forget that it has not had a fair trial. Experience of other states that have passed a similar tax, demonstrates that it takes more than four years, the period the Kansas law has been in effect, to put it on a working basis. Furthermore, the rate hike from 2.5 to 5 mills in 1927 and talk of an even higher rate or repeal of the intangible tax has kept many intangibles off the tax rolls. The cautious ones hesitate about revealing their intangibles lest little by little the rate will approach the old general property rate.

WHAT SHOULD BE DONE ABOUT THE TAX PROBLEM

It is not necessary to add that taxation, constituting as it does the raising of such large sums of money, is one of the most important of our public questions. The history of taxes shows a trend strongly upward. Table VII shows the general property tax levied in the state of Kansas for the years 1880 to 1927. Figure 1 reveals how the cost of government has mounted, with only a few exceptions, each year throughout this period of 48 years.

The taxpayer wonders ofttimes if this tendency to increase must always go on or if there is not some way to reduce taxes. The answer is that taxes may be reduced if we are willing to contract the functions of government. Try as one may, any appreciable reduction in taxes must come only when people release the government from doing some work it now does for them. Office seekers have earnestly promised tax reduction, only to find it is a much more difficult proposition than they imagined. It is easy to talk about reducing taxes in the abstract, but when it comes to the point of putting one's finger on the particular service to be curtailed, if taxes are to be reduced, it is a different matter. This is an age when

TABLE VII.—PER CAPITA PROPERTY TAX LEVIED FOR ALL PURPOSES, 1880 TO 1927. (*a*)

YEAR.	Population.	Total tax for all purposes.	Amount of tax per capita.
1880	995,966	$5,699,408	$5.72
1881	925,795	6,154,258	6.65
1882	962,949	6,663,105	6.91
1883	1,028,729	7,057,603	6.86
1885	1,268,530	8,890,024	7.01
1887	1,514,578	11,496,708	7.59
1889	1,464,914	13,432,320	9.17
1891	1,338,811	12,683,648	9.47
1893	1,366,613	13,102,794	9.58
1895	1,334,734	13,022,863	9.76
1896	1,336,659	12,612,125	9.43
1897	1,336,789	12,593,451	9.42
1898	1,390,969	14,104,943	10.14
1899	1,425,119	13,328,330	9.35
1900	1,444,708	13,548,901	9.38
1901	1,467,808	13,906,303	9.54
1902	1,464,628	14,477,601	9.88
1903	1,487,847	16,903,157	11.36
1904	1,535,160	16,063,637	10.46
1905	1,544,968	17,880,379	11.57
1906	1,611,791	18,485,746	11.47
1907	1,651,331	20,497,603	12.41
1908	1,656,799	21,217,979	12.80
1909	1,707,491	23,738,135	13.90
1910	1,696,361	24,516,113	14.45
1911	1,686,647	27,776,736	16.47
1912	1,669,296	27,806,606	16.66
1913	1,685,621	29,483,883	17.49
1914	1,672,106	30,988,122	18.53
1915	1,672,545	33,849,567	20.24
1916	1,715,463	35,788,531	20.86
1917	1,736,900	41,179,180	23.71
1918	1,734,636	44,543,634	25.67
1919	1,759,793	55,613,474	31.60
1920	1,779,936	68,026,739	38.22
1921	1,792,926	75,962,537	42.37
1922	1,807,022	69,387,389	38.40
1923	1,824,190	75,617,688	41.45
1924	1,833,882	76,858,627	41.91
1925	1,812,986	79,491,868	43.84
1926 (*b*)	1,822,989	81,120,809	44.51
1927 (*b*)	1,837,514	85,295,132	46.52

(*a*) Tenth biennial report of the Kansas Tax Commission.
(*b*) The figures for 1926 and 1927 were added to the Tax Commission's report.

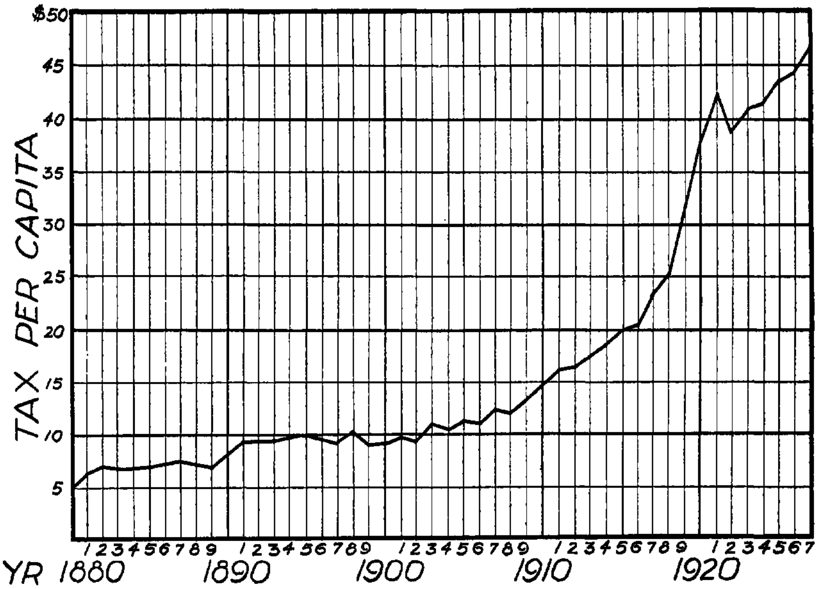

FIG. 1.—Per capita property tax levied for all purposes, 1880 to 1927.
Source: Tenth biennial report of the Kansas Tax Commission.

people demand a great number of services from both government and private business, and both must be paid for.

The rising level of general prices, the increasing population, the expanding sphere of governmental activity, and the rising standards in governmental activities and efficiency have caused high taxes and are likely to continue to exert the same influence.

It does not seem, then, that much can be hoped for in the way of tax reduction. Our chief hope seems to lie in (1) the most efficient use of public funds for the common good, and (2) adjustment of the tax burden so that it will bear upon the taxpayers as equitably as possible.

The adjustment most obviously needed at the present time is to lighten the load upon real estate. This distribution of the tax burden could be accomplished by shifting part of the load now borne by the general property tax to other types of taxes. This would mean some new taxes or raising the rates on some of the indirect taxes now in existence, or possibly both alternatives.

The tax on property now carries more than 80 per cent of the tax load, not because real estate and personal effects directly furnish more than 80 per cent of the income of the citizens of the state, but because it is a hang-over from the day when, practically speaking, the total wealth of Kansas was represented by visible tangible property. When Kansas became a state, her fiscal system, as prescribed by the constitution, was founded on general property as the sole base of taxation. In those days such a system was well suited to her needs. The amount of tangible property possessed was a fair index of ability to pay taxes.

But times have changed in Kansas during the sixty-eight years of her statehood. The professional class who receive salaries for performing services the people desire has grown rapidly. The growth of manufacturing and the concentration of industry has, on the one hand, made a large class of wage earners, and on the other hand, distributed widely the ownership of industry over a large class of people who depend on the returns from stocks and bonds for a large or small share of their income.

These changes are marks of a progressive civilization, but the new sources of wealth which they create have tended to make the general property tax less just. While it is true that most people who obtain an income from salaries, wages, and interest, own some real estate, they may not. In case they do not, their incomes may practically escape taxation.

An amendment to the state constitution will be submitted to the voters at the general election in 1930, which, if adopted, would enable the legislature to enact laws levying a graduated state income tax for Kansas.

Equitable distribution of the tax burden as nearly as possible according to ability to pay taxes and benefits received, rather than tax reduction, then, appears to be the program for the present.

APPENDIX

A BRIEF OUTLINE OF FEDERAL FINANCES

In the foregone pages the taxation system of Kansas and its subdivisions were described. To complete the picture, something should be said about that great taxing jurisdiction, the United States government. Only the briefest outline of federal finances can be given. The United States government in practically every instance raises its revenues from sources other than those used by the state and local governments. All contribute to the national government, but they are not always conscious of the fact because a large share of the federal tax is indirect.

Table VIII is a summary of revenue receipts of the federal government for the fiscal year ended June 30, 1928. Federal revenues are divided into two great classes, internal revenue receipts and customs duties. It will be noted in the table that among the internal revenue receipts, the corporation income tax contributes more than one-third of all federal revenue and more than twice as much as customs duties, while the individual income tax contributes more than one-fourth of the total. The income tax, contributing as it does approximately 65 per cent of federal revenue, has come to be, within quite recent years, by far the most important of national taxes.

TABLE VIII.—SUMMARY OF REVENUE RECEIPTS OF UNITED STATES GOVERNMENT FOR FISCAL YEAR ENDED JUNE 30, 1928. (*a*)

	Portion of each $100 raised.	Total taxes.
Grand total of federal revenues	$100.00	$3,358,692,130.60
Total of customs receipts	$16.92	$568,156,592.92
Total of internal revenue receipts	83.08	2,790,535,537.68
Corporation income tax	$38.46	$1,291,845,989.25
Individual income tax	26.28	882,727,113.64
Tobacco taxes	11.80	396,450,041.03
Estate tax	1.79	60,087,233.97
Admissions and club dues	.84	28,077,941.91
Spirits and narcotics taxes	.48	15,998,228.86
Sales taxes and miscellaneous	3.43	115,348,989.02

(*a*) From Annual Report of the Commissioner of Internal Revenue for fiscal year ended June 30, 1928.

For the fiscal year, 1920 the exenditures of the fedral government were divided according to function into four great classes as follows:

Public debt	43.2 per cent
Military functions	29.8 per cent
Ordinary civil functions	15.9 per cent
Trust funds, loans, refunds, losses, etc.	11.1 per cent
	100.0 per cent

Of these classes the first in importance at present is the service of the public debt, which includes debt retirement and interest payments. The second class of expenditures are those for military functions, which include aid to war veterans and expenditures of the

War and Navy departments. The third group of expenditures is for the ordinary civil activities of the federal government, while the fourth group includes expenditures for all other purposes. The civil expenditures, constituting only a little more than one-sixth of the total, pay for a wide variety of government services. The ordinary civil expenditures for the fiscal year 1926 were as follows:

Public domain, works, and industries	43 per cent
Development and regulation	17 per cent
General government	16 per cent
Internal security	12 per cent
Local governments and Indians	9 per cent
Foreign relations	3 per cent
	100 per cent

Under public domain, works, and industries, among other items, is included the promotion of good roads. The item of roads alone accounts for more than one-third of the expenditures under this heading. Development and regulation include, besides education and research, the promotion or regulation of special groups or industries such as agriculture, banking, commerce, labor, and railroads. General government includes most administrative operations of a general character, expenditures for congress, and the maintenance of public buildings. Internal security includes disbursements for law enforcement, immigration, and public health. The last two items, local governments and Indians and foreign relations, are self-explanatory.

In the discussion of federal finances mention may be made of the fact that the federal government does not itself spend all of the tax money collected, but turns over to states and other agencies large amounts to be expended for certain specified purposes. In 1927 more than 136 million dollars were appropriated by the government for the carrying out of its federal aid policy.

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