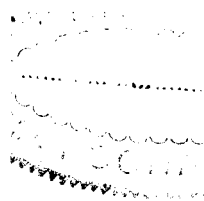


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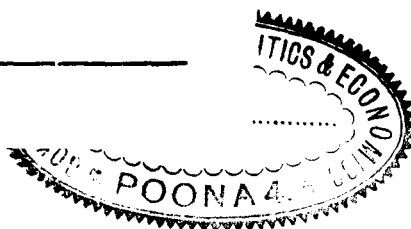
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JAMES K. HALL

Seattle, Washington
June, 1939

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Federal Aid: Social Security.....	5,889,420.89	8.13
Federal Aid: Miscellaneous ⁴	812,199.73	1.12
State Property Tax ⁵	3,799,876.91	5.24
Retail Sales Tax ⁶	12,533,498.12	17.29
Business and Occupation Taxes ⁷	5,858,565.57	8.08
Public Utility Taxes and Fees ⁸	2,700,988.56	3.73
Corporation and Insurance License Taxes.....	1,874,387.40	2.59
Inheritance Tax.....	1,443,308.43	1.99
Liquor Profits, Taxes and Licenses ⁹	4,252,843.97	5.87
Selective Excise Taxes ¹⁰	3,984,907.24	5.50
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A STUDY OF THE CHARACTER OF PROPERTY IN WASHINGTON AS REVEALED IN PROBATED ESTATES WITH REFERENCE TO THE WASHINGTON TAX SYSTEM

I.

INTRODUCTION

Of vital concern to the citizens of our several states is the character of the property within their jurisdictions, the relative value quantities of property in the various categories, and the method or methods employed in taxing that property. A fundamental responsibility of government is to foster and to encourage economic activity and development in all lines of beneficial endeavor. In the proper discharge of this responsibility, no consideration appears to be of greater importance than the provision of equitable, economical, and soundly administered tax systems. The rapidity with which economic changes occur and the importance of the maximum of orderliness in the evolution of the economic process require that tax systems be subject to close and continuing scrutiny if serious and widely pervading economic distortions and frictions are not to intervene. No tax system long remains in reasonable balance in the absence of constant adjustments to establish conformity to the dynamic economic and social environment in which it is placed. Unremitting attention should be focused upon changes occurring in the character of property, of income, of business activities, and the like. The economic effects of taxation and the repercussions flowing therefrom should be the objects of careful study and analysis.

Unfortunately, tax measures are all too frequently enacted with revenue the prime consideration and without adequate regard to how inequitable and economically unsound the taxation may be. Political expediency, pressures of self-interest groups, and hurried and ill-conceived legislative makeshifts in meeting current revenue needs with fiscal patchwork seem often to shape tax systems in both detail and general aspect. If the economic and social advantage of the public is to be served, emphasis in the legislative process must be found in the ascertainment of relevant facts, with an appreciation of the incidence and economic effects of the various forms of taxation, and a willingness to serve the interests of equity in taxation to the fullest practicable extent.¹

¹ In this connection the Washington Tax Commission observes that:

"The tendencies of our two major taxes, the property tax and the sales tax, are regressive, in that they tend to bear more heavily upon the poor than upon the people of substantial wealth or income. The indicated balancing remedy in such cases, advocated by practically all competent economists and tax authorities, would be the enactment of taxes based upon net income. . . .

"We feel it is not within our province here to argue as to whether taxes as a whole should be increased or decreased. Our first concern is the balancing of our tax system and perfecting its administration so that every citizen and taxpayer will make his contribution to the support of government, whether it be great or small, in accordance with the principles of equitable taxation. We insist that our constitution should be amended so that these most desirable ends may be attained." *Seventh Biennial Report, 1938*, pp. 5-6.

The property tax in Washington at the present time is the most important source of tax revenue in local government finance and, although of rapidly declining importance in state finance, is still of significant proportions. Reference to Table I discloses that the State Treasury received \$3,799,876.91 from the property tax during the fiscal year 1937-1938, or 5.24 per cent of total revenue. Chart I reveals the relative importance of this source of revenue in graphical form. The amounts levied and the amounts collected from the Washington property tax classified by divisions of government are shown in Table II. Although the aggregate property tax levy for 1937—\$41,629,715.00—is only 52 per cent of the 1930 levy of \$80,016,418.00, this form of taxation produces annually more revenue for the

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¹³ Current deficit to balance expenditures met primarily from cash on hand and outstanding warrants.

TABLE III

SHIFT FROM PROPERTY TO EXCISE TAXATION IN THE FINANCING OF WASHINGTON
STATE AND LOCAL GOVERNMENT, 1931-1938¹

SOURCE OF REVENUE	1931	1932	1933	1934	1935	1936	1937	1938 ²
Property tax levies ³	\$ 80,016,000	\$73,357,000	\$66,469,000	\$54,019,000	\$48,442,000	\$42,168,000	\$41,944,000	\$41,630,000
State levy.....	\$ 14,031,000	\$12,298,000	\$12,178,000	\$ 7,188,000	\$ 7,005,000	\$ 3,653,000	\$ 3,775,000	\$ 3,832,000
Local levies ⁴	65,985,000	61,059,000	54,291,000	46,831,000	41,437,000	38,515,000	38,169,000	37,798,000
State excise taxes.....	\$ 13,335,000	\$13,091,000	\$14,067,000	\$19,913,000	\$27,893,000	\$42,493,000	\$45,224,000	\$44,244,000
Gasoline.....	\$ 10,708,000	\$10,977,000	\$10,967,000	\$11,870,000	\$12,558,000	\$14,336,000	\$15,266,000	\$15,340,000
Insurance premium.....	1,457,000	1,421,000	1,248,000	1,195,000	1,331,000	1,389,000	1,359,000	1,400,000
Inheritance and escheats.....	973,000	527,000	375,000	402,000	652,000	1,834,000	1,511,000	1,917,000
Fish catch.....	165,000	144,000	159,000	161,000	126,000	80,000	127,000	110,000
Express privilege.....	32,000	22,000	15,000	14,000	15,000	15,000	17,000	18,000
Business.....			917,000	4,006,000	4,149,000	5,429,000	5,497,000	5,094,000
Public utility.....			322,000	1,407,000	1,606,000	2,895,000	2,363,000	2,267,000
Horse racing.....			64,000	136,000	142,000	150,000	133,000	147,000
Beer, wine and liquor.....				722,000	1,297,000	2,087,000	2,192,000	2,066,000
Retail sales.....					4,361,000	11,003,000	12,603,000	11,210,000
Compensating.....					60,000	296,000	520,000	668,000
Fuel oil.....					549,000	1,073,000	1,128,000	812,000
Cigarette.....					664,000	1,023,000	1,096,000	1,070,000
Admissions.....					340,000	810,000	803,000	791,000
Conveyance.....					43,000	73,000	91,000	82,000
Automobile excise.....							518,000	1,252,000
Major state licenses.....	\$ 7,363,000	\$ 2,285,000	\$ 2,787,000	\$ 3,560,000	\$ 4,213,000	\$ 4,381,000	\$ 5,713,000	\$ 4,384,000
Corporations.....	\$ 513,000	\$ 431,000	\$ 357,000	\$ 398,000	\$ 398,000	\$ 432,000	\$ 404,000	\$ 360,000
Insurance agents.....	80,000	73,000	61,000	58,000	56,000	57,000	58,000	60,000
Motor vehicles ⁵	6,770,000	1,781,000	2,369,000	2,878,000	3,400,000	3,030,000	4,364,000	3,115,000
Liquor.....				226,000	359,000	862,000	887,000	849,000
State Liquor Board net profits.....				\$ 982,000	\$ 1,849,000	\$ 2,274,000	\$ 3,151,000	\$ 3,150,000
TOTAL REVENUES ⁶	\$100,714,000	\$88,733,000	\$83,323,000	\$78,474,000	\$82,397,000	\$91,316,000	\$96,032,000	\$93,408,000
VARIATIONS FROM 1931								
Property tax levies.....		-\$ 6,659,000	-\$13,547,000	-\$25,997,000	-\$31,574,000	-\$37,848,000	-\$38,072,000	-\$38,386,000
State excise taxes.....		+ 244,000	+ 732,000	+ 6,578,000	+ 14,558,000	+ 29,158,000	+ 31,889,000	+ 30,909,000
Total taxes.....		-\$ 6,903,000	-\$12,815,000	-\$19,419,000	-\$17,016,000	-\$ 8,690,000	-\$ 6,183,000	-\$ 7,477,000
Major state licenses.....		- 5,078,000	- 4,576,000	- 3,803,000	- 3,150,000	- 2,982,000	- 1,650,000	- 2,979,000
Liquor Board net profits.....				+ 982,000	+ 1,849,000	+ 2,274,000	+ 3,151,000	+ 3,150,000
TOTAL VARIATION.....		-\$11,981,000	-\$17,391,000	-\$22,240,000	-\$18,317,000	-\$ 9,398,000	-\$ 4,682,000	-\$ 7,306,000

¹ Washington Tax Commission, Seventh Biennial Report, 1938, Table No. 1, p. 40.² Estimated, except for property tax levies.³ From Bureau of Municipal Corporations, Statement of Taxes Due; shown for year in which collectible.⁴ See Tables No. 8 and 10, Seventh Biennial Report, Washington Tax Commission, for analysis of local levies.⁵ Includes operators' licenses, auto title fees, and motor vehicle registrations.⁶ Excludes social security taxes, workmen's compensation assessments, Federal aid, public utility regulatory fees, rent, interest, hunting and fishing licenses, local licenses and excise taxes, and minor state sources.⁷ Collections for 1938 began December 1, 1937.

TABLE II
COMPARISON OF WASHINGTON PROPERTY TAX LEVIES AND COLLECTIONS, 1930-1938¹

Year of Levy To be Collected in..	1930 1931	1931 1932	1932 1933	1933 1934	1934 1935	1935 1936	1936 1937	1937 1938
AMOUNT LEVIED—²								
State	\$14,031,310	\$12,298,334	\$12,178,563	\$ 7,187,762	\$ 7,005,352	\$ 3,652,932	\$ 3,775,149	\$ 3,831,738
Counties	20,425,309	19,516,656	18,935,236	16,501,596	13,183,454	12,594,996	12,049,729	11,189,805
Cities and Towns	19,278,724	17,567,632	14,313,598	11,307,480	10,971,000	10,700,898	10,979,202	10,557,526
School Districts	19,998,171	19,144,458	17,291,173	14,793,414	13,324,063	12,573,799	12,449,930	12,802,356
Road Districts	3,748,442	2,855,984	2,124,222	2,325,555	2,297,927	1,154,072	1,190,807	1,293,656
Port Districts	1,471,529	1,170,223	952,965	1,117,638	979,272	863,544	842,779	930,537
All Other Districts	1,062,933	803,427	673,623	785,198	681,465	627,720	655,738	1,024,097
TOTAL	\$80,016,418	\$73,356,714	\$66,469,380	\$54,018,643	\$48,442,533	\$42,167,961	\$41,943,334	\$41,629,715
AMOUNT COLLECTED—³								
From Current Levy	\$66,694,436	\$51,429,273	\$46,763,729	\$41,351,213	\$39,185,275	\$34,800,055	\$36,252,331	.....⁴
From Delinquent Taxes	4,756,587	5,133,560	15,715,397	13,973,933	13,619,763	7,952,280	8,976,261	.....⁴
TOTAL	\$71,451,023	\$56,562,833	\$62,479,126	\$55,325,146	\$52,805,038	\$42,752,355	\$45,228,592	.....⁴
Excess of Levies Over Collections	\$ 8,565,395	\$16,793,881	\$ 3,990,254	.....	.....	.....	.....	.....⁴
Excess of Collections Over Levies . . . . .	.....	.....	.....	\$ 1,306,503	\$ 4,362,505	\$ 584,374	\$ 3,285,258	.....⁴

¹ Washington Tax Commission, Seventh Biennial Report, 1938, Table No. 10, p. 48.

² From Bureau of Municipal Corporations, Statement of Taxes Due.

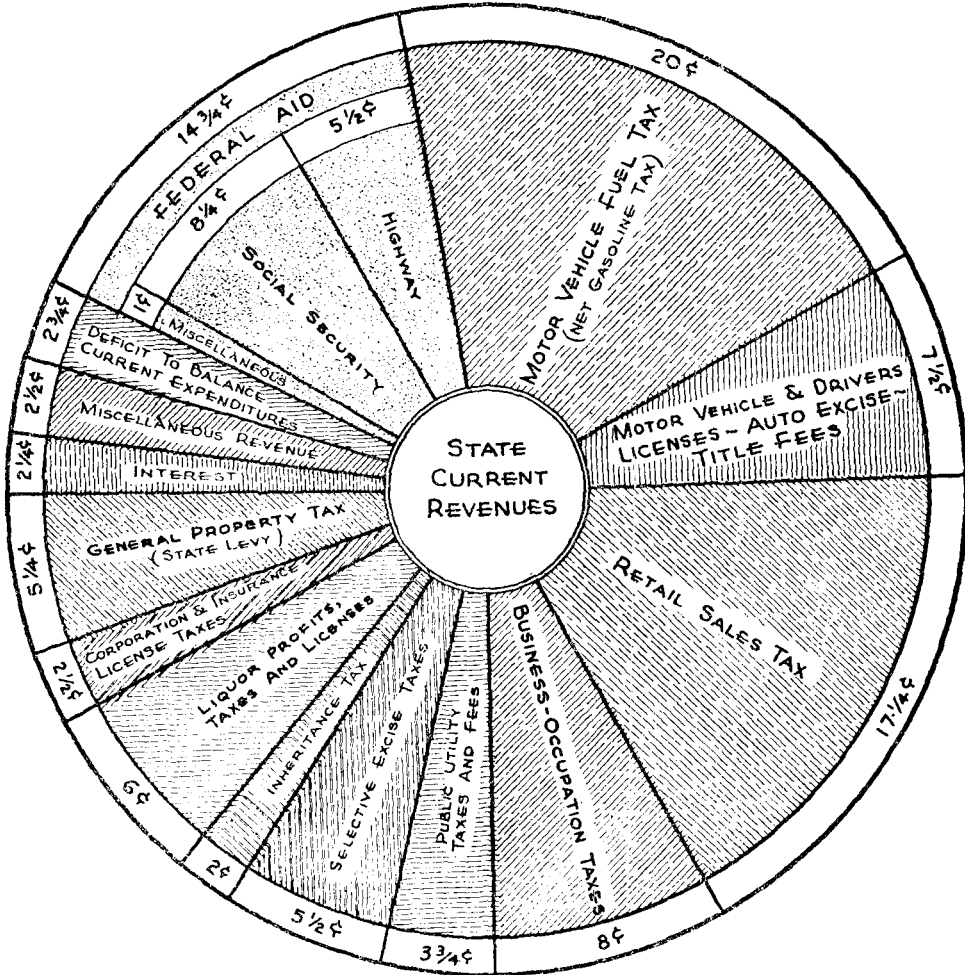
³ From Reports of County Treasurers to the Tax Commission.

⁴ Data not yet available.

CHART I
THE WASHINGTON REVENUE DOLLAR¹

(State Fiscal Year ending March 31, 1938)

Total Current Revenues of State Government (Year ending March 31, 1938)=\$72,447,500.27²



¹ Tax Commission of the state of Washington, Division of Research and Statistics.

² Includes current deficit to balance current expenditures of \$1,891,875.26, which deficit was met principally from cash on hand and from outstanding warrants.

³ Excludes trust fund receipts, interfund transfers, and reimbursement of current expenditures; includes only that part of State Liquor Board and State Printing Plant income which is contributed by those enterprises toward general government support.

combined state and local treasuries than any other form of revenue.² The drastic reduction in the annual property tax levies during the period 1930 to 1937 inclusive finds its explanation principally in the fall in property values and, to a lesser extent, in the decline in the assessed value of property occasioned by the economic depression, in the pressure upon all divisions of government for economy in public expenditures, and later in the inelastic and rigorous forty mill tax rate limit law of 1932 which applied to the levies of 1933 and thereafter by subsequent re-enactment every two years through initiative procedure. With the above tax rate limitation becoming increasingly restrictive following successive changes in its substantive features, property taxation has continued to decline both relatively and absolutely in fiscal importance. The shift from property to excise and sales taxation in the financing of state and local governments is shown in Table III.³

The ownership and use of property by natural persons and corporations is relative rather than absolute in character. Any and all rights in property must be exercised subject to the will of organized society. Eminent domain, taxation, and the varied aspects of the police power are indicative of certain limits within which private rights in property find the scope of their employment. Any significance and value which may attach to property are grounded upon governmental protection—internal and external, the administration of justice, the secured opportunity of economic intercourse, and the like. Government provides the framework and the several agencies through which collective society expresses its wants with their means of satisfaction. The financial basis for the existence and the continuance of government is the use of the taxing power. To the extent that taxation is imposed on property, it is of major importance that the levies be distributed equitably among the owners of property. The existence of unfair discriminations and gross inequalities in property taxation is to create serious social questions concerning the desirability of maintaining property rights. Private property as an institution may be justified only in terms of its relationship to society and the effectiveness with which it contributes to the economic and social welfare of society. If the relationship is inharmonious and strained by serious tax inequalities, the consequences, sooner or later, may be far-reaching changes in the character of the institution of private property.

² In reference to this development the Washington Tax Commission states:

"The major significant change in our taxation system within recent years has been the remarkable shift in the relative revenue production of property taxes and excise taxes . . . [See Table III]. The total of property taxes levied throughout the state for all purposes in 1930 was \$80,016,000, and for 1937 the amount levied was \$41,630,000. During the same years the property tax levy for state purposes has been reduced from \$14,031,000 in 1930 to \$3,832,000 in 1937; and the 1938 state levy will be further reduced by almost \$1,000,000. Meanwhile the total of excise taxes imposed by the state has increased from \$13,335,000 in 1931 to \$45,224,000 in 1937; the estimated total for 1938 being \$44,244,000. These increases in excise revenue are the reflection of the enactment, beginning in 1933, of comprehensive taxes upon businesses and occupations and the two per cent sales tax, the latter at present producing more than twice the revenue received from any other single excise source, except the motor vehicle fuel tax. Less important but significant changes have occurred in the total of major state licenses, which diminished from \$7,363,000 in 1931 to \$5,713,000 in 1937, the estimate for 1938 being \$4,384,000." *Seventh Biennial Report, 1938*, p. 5.

³ The revenue status of all local governments in the State of Washington for 1932 is reported as follows: *Revenue from property taxes*, \$54,519,000; *Total tax revenue*, \$55,445,000; *Total revenue receipts*, \$103,964,000. U. S. Department of Commerce, *Statistical Abstract, 1937*, p. 208.

II.

STUDY OF PROBATED ESTATES

The principal purposes of the study of an extensive sampling of probated estates in Washington are (1) to determine the relative importance (in terms of value) of realty, tangible personalty, and intangible personalty; (2) to ascertain the nature of the distribution of these classes of property in relation to the size of estates; (3) to find the distribution of intangible personalty as between (a) representative and (b) non-representative intangibles; and (4) to establish a breakdown of intangible personalty into its various important types, *e.g.*, federal securities, state and local securities, foreign securities, corporation bonds, and corporation stocks.

A. SCOPE OF STUDY

The survey includes all estates of probate file in King, Spokane, Skagit, Chelan, Douglas, and Jefferson counties for the years 1928, 1933, and 1935. The number of probated estates subject to analysis is 7,992. The adequacy and reliability of the conclusions of this study depend upon the extent to which the probate records are correctly indicative of the composition of property generally in the several classes (realty, tangible personalty, and intangible personalty), and the extent to which the sampling, as to the number of estates, the geographical distribution, and the years taken, is representative of property composition among citizens of the state (as a whole) at the present time.

Probate records are the nearest approximation to complete official inventory and value appraisal of personal estates now available. However, probate records as a source of reliable data are defective on several grounds because (1) many estates of small size which do not contain realty for devise are not subject to probate;¹ (2) partial emasculation of estates, both as to size and as to classes of property, by gift may and does occur prior to the death of decedents even though

¹ Accurate information is lacking as to the number and size of these estates. However, there is reason to believe that the non-probated estates are quite numerous although probably of comparatively small value size in general. The cost of probate, the time required to complete probate, and the fact that probate may be unnecessary when the estates consist of personalty exclusively, as well as the relatively nominal amount of value of many estates, cause a large number to go unprobated.

The Federal Trade Commission, in investigating the distribution of national wealth and income, reports that, in its study of 43,512 probated estates (all estates probated) in twenty-four counties in thirteen states for the period 1912-1923 inclusive, the total number of persons dying during this period in these counties was about 259,908. It is estimated that of these 184,958 were 21 years of age or over. The Commission concludes that the "fact that the estates of only 43,512 were probated indicates that the remaining 141,446 died, leaving estates so small that they were not probated." Federal Trade Commission, *National Wealth and Income*, Senate Document No. 126 (1926), p. 58.

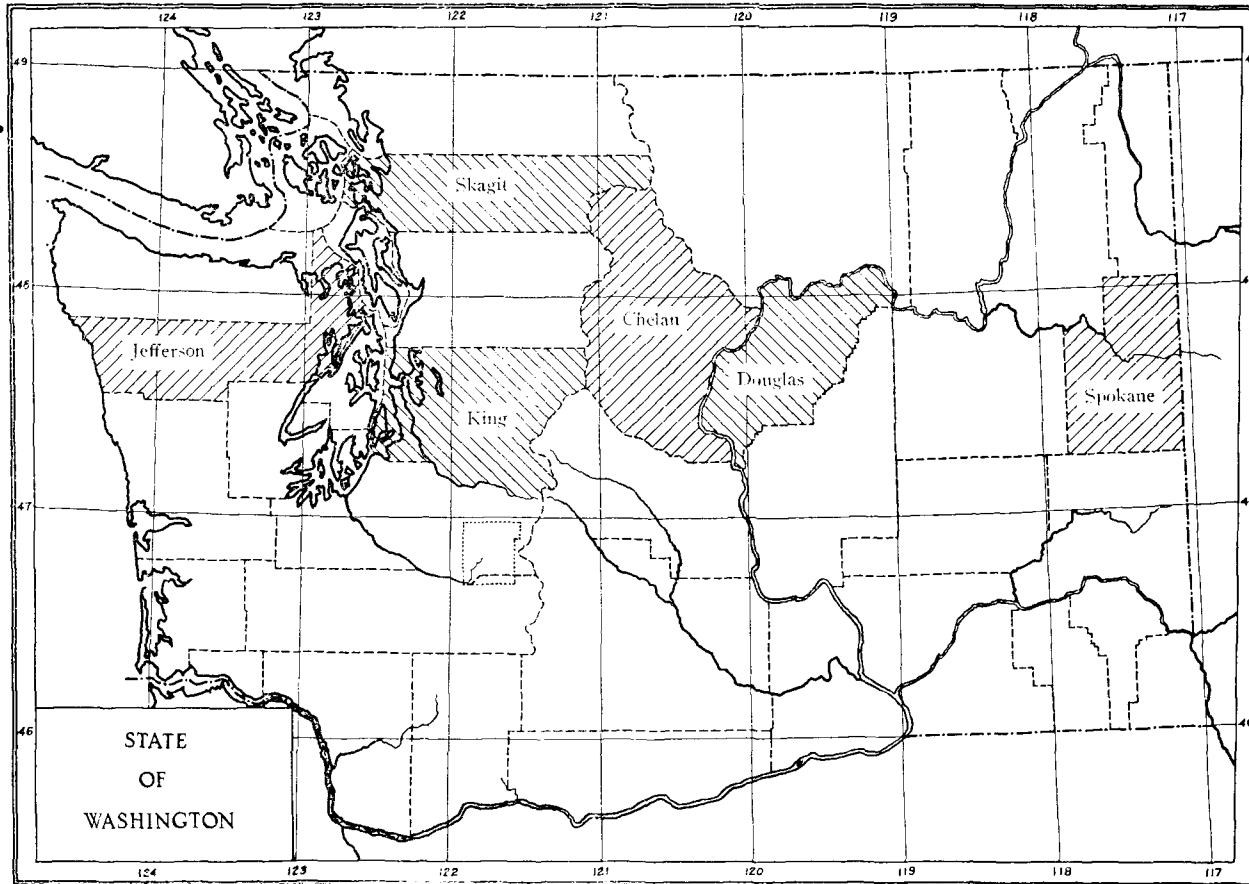


FIGURE I. Counties in Which Studies of Probate Estates Were Made.

the residue of the estates is subject to probate;² (3) there is no inclusion of property owned by corporations because such records relate only to the composition of the property of natural persons; and (4) the valuations placed on property as recorded in probate files represent, probably, a most conservative appraisal, to say the least, with a positive undervaluation, possibly, in the majority of cases.³ Notwithstanding these limitations in the use of data in county probate records, it is believed that the information provides the best available basis for the determination of the composition of property and its relative distribution among the citizens of the state.

This method of investigation and the use of probate records as a source of information have been employed in a number of instances and, generally, seem to have given reasonably reliable, as well as comparable, results.⁴

B. RELATIVE PROPORTIONS OF PROPERTY, BY CLASSES

The locations of the counties (King, Spokane, Skagit, Chelan, Douglas, and Jefferson), the probate files of which for the years 1928, 1933, and 1935 are taken as the underlying data, are shown in Figure I, represented by the shaded areas. King and Spokane counties are regarded as representative of urban populations, with Skagit, Chelan, Douglas, and Jefferson counties representative of rural populations.

Table IV indicates the number of probate files subject to study by counties, according to the years 1928, 1933, and 1935. It will be observed that the total of probated estates for 1928 and 1935 for all counties did not vary appreciably, although there was a decrease in the number of probated estates in 1933 of 357 as compared with 1928. As would be expected, the total number of probated estates for the urban counties (King and Spokane) greatly exceeded those of the rural counties (Skagit, Chelan, Douglas, and Jefferson).

² Washington does not have a gift tax. The absence of state gift taxation encourages this procedure. In addition transfers *inter vivos*, or gifts prior to death, permit legal avoidance of the Washington inheritance tax providing they do not fall within the two-year statutory period (prior to death) during which they are presumed to have been made in contemplation of death, and hence taxable. See Annotated Code of Revenue Laws, State of Washington, 1935, Sec. 424.

³ Mr. Hiram U. Welch, Assessor, Multnomah County, Oregon, however, expresses confidence in the value appraisal of estates contrary to the opinions frequently expressed by administrators of estates and officials concerned with the administration of inheritance and estate taxes that it is customary to find, if not positive undervaluation, at least a most conservative appraisal of the value of the estate. Welch states that "a person possessed with property may exaggerate its value to his banker, or he may be extremely modest as to its value in making his returns to the assessor, but an administrator's inventory of an estate filed in the Probate Court can generally be relied upon as reflecting the true value." *Tax Rate Sheet*, Multnomah County (Oregon), 1931, p. 3.

⁴ See Gabbard, L. P., *Relative Importance of Intangible Property in Texas*, Texas Agricultural Experiment Station Bulletin No. 505, 1935; Welch, H. U., *Tax Rate Sheet*, Multnomah County (Oregon), 1931; Klemmedson, G. S., *State and Local Tax Revision in Colorado*, Colorado Agricultural College Experiment Station, Bulletin No. 398, 1932, pp. 38-40; Roberts W. A., *Arizona Tax Problems*, University of Arizona, Social Science Bulletin No. 8, 1935, pp. 22-25; Girard, R. A., *Scope for Uniformity in State Tax Systems*, Special Report, New York Tax Commission, 1935, p. 58; Compton, R. T., "Measuring the Intangible Tax Base," *Bulletin*, National Tax Association, Vol. XVI, No. 6, March, 1931, pp. 165-168.

Table V reveals, significantly, the relative proportions of property classified as to realty, tangible personalty, and intangible personalty. In Table V-A the actual values of the various classes of property are reported. Table V-B places these values on a percentage basis. The relative proportions of property for all counties in the three-fold classification⁵ are as follows:

TABLE IV.
NUMBER OF PROBATED ESTATES IN WASHINGTON SURVEY¹

County	YEAR			Total
	1928	1933	1935	
King.....	1,720	1,546	1,734	5,000
Spokane.....	708	587	693	1,988
Skagit.....	171	135	154	460
Chelan.....	95	89	96	280
Douglas.....	64	48	54	166
Jefferson.....	36	32	30	98
TOTAL.....	2,794	2,437	2,761	7,992

¹ Includes all estates probated in the six counties during the three years.

realty, 39.67 per cent; tangible personalty, 3.29 per cent; and intangible personalty, 57.04 per cent. It will be noted that in the urban counties (King and Spokane) the probated estates consist of a much larger proportion of intangible personalty than in the rural counties, Jefferson County excepted. (See footnote, Table V.) This situation apparently finds explanation in (a) the tendency of rural residents to invest more largely in realty, a class of property with which they have greater familiarity, and (b) the smaller value size of estates, generally, in the rural counties as compared with the urban counties. Reference to Table XIII, to be discussed later, shows the pronounced tendency for the proportion of intangibles in estates to increase with increases in the size of estates.

⁵ According to the Washington statutory definition, the "term 'real property' for the purposes of taxation shall be held and construed to mean and include the land itself . . . and all buildings, structures or improvements or other fixtures of whatsoever kind thereon . . . and all property which the law defines or the courts may interpret, declare and hold to be real property under the letter, spirit, intent and meaning of the law for the purposes of taxation." *Revenue Laws*, Annotated Code, State of Washington, 1935, Sec. 47.

"The term 'personal property' for the purposes of taxation, shall be held and construed to embrace and include, without especially defining and enumerating it, all goods, chattels, stocks, estates or moneys . . ." *Ibid.*, Sec. 48.

In the classification of the property contained in the probated estates subject to examination, *realty* is regarded as land and those improvements, structures, or fixtures which have a definite and relatively permanent adherence to land; *tangible personalty* is construed to include all objects (chattels), animate or inanimate, which in contemplation of the law are moveable; *intangible personalty* is treated as consisting of stocks, bonds, book accounts, notes, cash, and the like, which exist simply in a legal sense.

TABLE V
COMPOSITION OF PROPERTY IN ESTATES PROBATED IN WASHINGTON

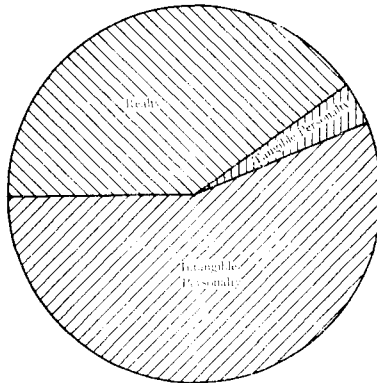
County	A. Actual Values			
	Total	Realty	Tangible Personalty	Intangible Personalty
King.....	\$53,763,905	\$19,566,181	\$ 1,592,482	\$32,605,242
Spokane.....	20,478,398	9,002,644	743,189	10,732,565
Skagit.....	2,433,892	1,430,566	158,690	844,636
Chelan.....	3,039,513	1,592,250	103,856	1,343,407
Douglas.....	449,767	315,323	38,099	96,345
Jefferson ¹	633,629	149,823	24,097	459,709
TOTAL.....	\$80,799,104	\$32,056,787	\$ 2,660,413	\$46,081,904

B. Percentage Basis				
King.....	100.00%	36.39%	2.96%	60.65%
Spokane.....	100.00	43.96	3.63	52.41
Skagit.....	100.00	58.78	6.52	34.70
Chelan.....	100.00	52.38	3.42	44.20
Douglas.....	100.00	70.11	8.47	21.42
Jefferson ¹	100.00	23.65	3.80	72.55
TOTAL.....	100.00%	39.67%	3.29%	57.04%

¹ An estate probated in Jefferson County in 1935 under probate file No. 1396 had \$195,789 total value of property distributed as follows: No realty, \$975 tangible personalty, and \$194,814 intangible personalty. Because of the small sampling from Jefferson County, the inclusion of this estate gives an unrepresentative result for intangible property in that county.

Chart II expresses graphically the relative value aggregates of the three classes of property. In connection with this graphical representation and the above discussion, it is important to realize that *intangible personalty is not subject to property taxation⁶ along with realty and tangible personalty; nor is the*

CHART II
COMPOSITION OF PROPERTY IN ESTATES PROBATED IN WASHINGTON¹



¹ See Table V.

⁶ "All monies and credits including mortgages, notes, accounts, certificates of deposit, tax certificates, judgments, state, county and municipal bonds and warrants and bonds and warrants of other taxing districts, bonds of the United States and of foreign countries or political subdivisions thereof and the bonds, stocks or shares of private corporations shall be and hereby are exempted from *ad valorem* taxation." *Revenue Laws, op. cit.*, Sec. 113.

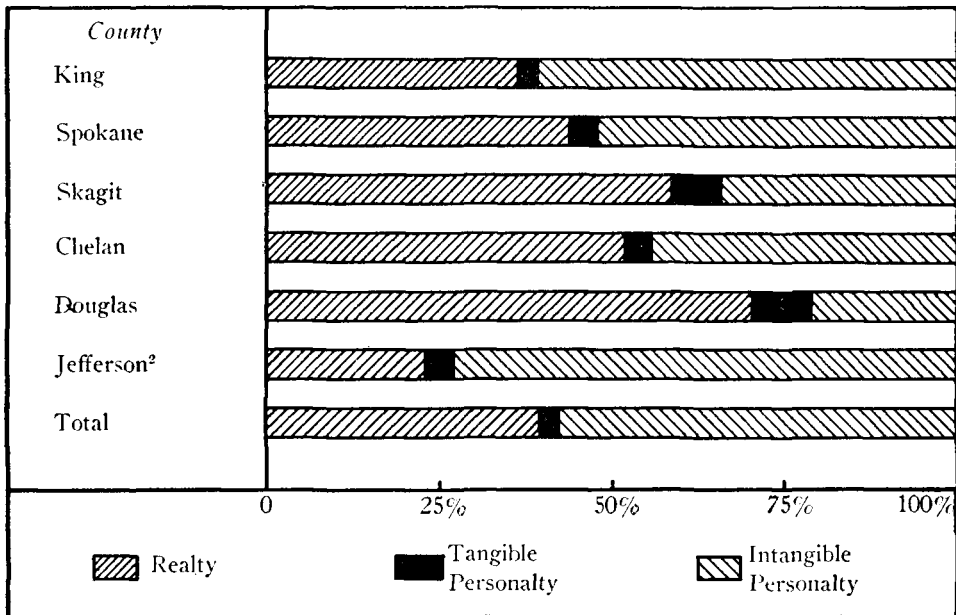
income from intangibles reached by any form of direct taxation, state or local.⁷ Chart III reveals the value aggregates, by classes of property, for the counties included in the study.

C. COMPOSITION OF ESTATES AS REPORTED IN COMPARABLE INVESTIGATIONS

Comparable studies in other states have reported findings in general conformity to the results found in the present study.

In a survey of all probated estates in forty-seven selected counties in Texas for the period 1922-1931, L. P. Gabbard states that 50.6 per cent of the property consisted of real estate, 3.5 per cent of chattels (tangible personalty), and 45.9 per cent of intangible personalty.⁸ The study comprised an analysis of 25,187 estates.⁹

CHART III
COMPOSITION OF PROPERTY IN ESTATES PROBATED IN WASHINGTON DURING 1928, 1933, AND 1935, BY COUNTIES¹



¹ See Table V.
² An estate probated in Jefferson County in 1935 under probate file No. 1396 had \$195,789 total value of property distributed as follows: No realty, \$975 tangible personalty and \$194,814 intangible personalty. Because of the small sampling from Jefferson County, the inclusion of this estate gives a distorted view of intangible property in that county.

⁷ The State of Washington does not have a personal or corporate income tax.
⁸ Gabbard, L. P., *op. cit.*, p. 7.
⁹ *Ibid.*, p. 6.

A study of 7,002 probated estates in Multnomah County, Oregon, for the period 1926 to 1930 inclusive by Hiram U. Welch, Assessor, revealed that 30.32 per cent of the property was in the form of real estate, 2.03 per cent chattels (tangible personalty), and 67.65 per cent intangible personalty.¹⁰

An analysis of 509 Colorado estates appraised for inheritance tax purposes during the year 1929 showed that, of total property value, 21.2 per cent was realty, 3.5 per cent tangible personalty, and 75.3 per cent intangible personalty.¹¹

Warren A. Roberts, in discussing the composition of property in Arizona, observes that the estates probated during the years 1931 and 1932 consisted of approximately 21 per cent mortgages, notes, judgments, and accounts receivable, and 41 per cent stocks and bonds.¹² Total intangible personalty, therefore, was in the approximate amount of 62 per cent. He concludes that "about 60 per cent of property, by value, [in Arizona] is intangible in character, and only about 40 per cent tangible."¹³ He does not indicate the relative proportions of realty and tangible personalty which, combined, represent 40 per cent of total property value.

Eugene E. Oakes, in his inquiry into the relative liquidity of large estates in Massachusetts, took the inventories of estates as found in the files of the Inheritance Tax Division (of Massachusetts) which had passed through probate between December 1, 1931 and November 30, 1934. Only those estates the gross value of assets of which consisted of \$100,000 or more were included in the sample subject to study.¹⁴ Of the total value of \$507,261,000 of the sampled estates, 6.6 per cent consisted of realty, 88.9 per cent of intangible personalty, and 4.5 per cent miscellaneous assets. The miscellaneous asset classification apparently included tangible personalty principally, plus certain items of intangible personalty.¹⁵ In Table VI the "Miscellaneous" assets have been classified under the head of Tangible Personalty in reporting these data in the Oakes study.

Oakes recognizes that the relative holding of realty in Massachusetts estates is much smaller than for the country at large. He accounts for this on the grounds that real estate owned by Massachusetts decedents but located outside the state was excluded (from Inheritance Tax Division files) as not subject to taxation by that jurisdiction, that "to a considerable extent this difference may represent a divergence between investment policies pursued within Massachusetts and in the country as a whole,"¹⁶ that the absence of large quantities of mineral, forest, and agricultural lands within the Commonwealth caused investment of funds in securities, and that the age of most of the large fortunes, combined with the high percentage of ownership by women under trustee administration of estates, brought a further emphasis on investment in intangibles as compared with realty. That the

¹⁰ Welch, H. U., *op. cit.*, p. 3.

¹¹ Klemmedson, G. S., *op. cit.*, p. 38.

¹² Roberts, W. A., *op. cit.*, p. 22.

¹³ *Ibid.*

¹⁴ Oakes, E. E., "The Liquidity of Large Estates in Massachusetts; 1932-1934," *Bulletin*, National Tax Association, June, 1938, p. 271.

¹⁵ *Ibid.*, p. 271.

¹⁶ *Ibid.*, p. 272.

proportion of intangible personalty to realty and tangible personalty is extremely high is clearly evidenced by brief reference to Table VI.

For the purpose of securing statistical information concerning the composition of wealth, H. S. Hicks, investigated all of the probated estates of three Illinois counties, Winnebago, Ogle, and Boone, for the decade 1920 to 1930. The total value of the probated estates was in the amount of \$70,022,014, which consisted of 44.8 per cent realty, 3.6 per cent tangible personalty, and 51.6 per cent intangible personalty.¹⁷

In a study designed to ascertain the approximate quantity of intangible personalty in Ohio, the Governor's Taxation Committee, following the application of certain corrective and refinement techniques to estimates, concluded that intangible personalty in the ownership of both natural persons and corporations was approximately \$17,225,000,000, or 47.2 per cent of all property value, estimated to be \$36,517,000,000.¹⁸

In appearing before the Committee on Finance of the Senate in hearings on H.R. 8974, Mr. Robert H. Jackson, of the Department of the Treasury, summarized data on the composition of estates drawn from Federal Estate tax files for the calendar years 1932 and 1933.¹⁹ He reported that, of a total estate value of \$2,795,819,000 in 1932, 15.5 per cent was in the form of realty, 12.1 per cent miscellaneous (principally tangible personalty), and 72.4 per cent intangible personalty. Of a total value of estates of \$2,026,931,000 in 1933, 19.1 per cent consisted of realty, 5.4 per cent miscellaneous, and 75.5 per cent intangible personalty.

In Table VI a tabular comparison of certain of the above data is presented. Estate values classified as "miscellaneous" by Mr. Jackson for 1932 and 1933 are listed under the head of tangible personalty.

D. COMPOSITION OF WEALTH, FEDERAL TRADE COMMISSION SURVEY (1926)²⁰

In basing its survey on the assumption that the probate records of the estates of deceased persons would disclose a reasonably reliable cross-section of the composition as well as the distribution of wealth, the Federal Trade Commission examined the probate records of 43,512 estates in twenty-four counties of twelve states and the District of Columbia for the years 1912 to 1923, inclusive.²¹ According to the Commission, "probate records not only cover all classes of de-

¹⁷ Hicks, H. S., "What Part of Our Wealth is Real Estate?" *Bulletin*, National Tax Association, November, 1930, p. 38.

¹⁸ Compton, R. T., "Measuring the Intangible Tax Base," *Bulletin*, National Tax Association, March, 1931, pp. 166-167.

¹⁹ Committee on Finance, United States Senate, Seventy-Fourth Congress, First Session, *Hearings*, H. R. 8974 (1935), p. 197.

²⁰ Federal Trade Commission, *National Wealth and Income*, Senate Document No. 126 (1926), pp. 56-69.

²¹ The Commission states that the "counties were selected with a view not only to their geographical distribution but also to a proportionate distribution as between counties with city, town, and rural population. For estates which were not probated an estimated average value of \$258 was assigned, the average value of the probated estates under \$500.

"Tabulations based on the records of these 43,512 estates (and 141,446 estates estimated as not probated) cover a total wealth of about \$708,000,000 for the 24 counties." *Ibid.*, p. 3.

TABLE VI
COMPOSITION OF VALUES OF ESTATES IN SURVEYS OF PROBATED ESTATES

Location	Period of Survey	Number of Estates	Realty	Tangible Personalty	Intangible Personalty	Total Value
Washington.....	1928, 1933, 1935	7,992	\$ 32,056,787.00 39.67%	\$ 2,660,113.00 3.29%	\$ 46,081,904.00 57.04%	\$ 80,799,104.00 100%
Texas.....	1922-1934	25,187	266,090,125.00 50.61%	18,115,388.00 3.45%	241,527,619.00 45.94%	525,733,130.00 100%
Multnomah County (Oregon)...	1926-1930	7,002	25,522,159.21 30.32%	1,712,340.77 2.03%	56,959,332.81 67.65%	84,193,832.79 100%
Colorado.....	1929	509	6,717,386.00 21.2%	1,109,002.00 3.5%	23,859,393.00 75.3%	31,685,781.00 100%
Massachusetts.....	Dec. 1, 1931 to Nov. 30, 1934	1,090 ¹	33,683,000.00 6.6%	23,110,000.00 ² 4.5%	450,468,000.00 88.9%	507,261,000.00 100%
Illinois ³	1920-1930	All probated estates for Winnebago, Ogle and Boone counties.	31,337,390.00 44.8%	2,550,518.00 3.6%	36,134,106.00 51.6%	70,022,014.00 100%
United States ⁴	1932	Estates filed under Federal Estate Tax	433,374,000.00 15.5%	337,571,000.00 ⁵ 12.1%	2,024,874,000.00 72.4%	2,795,819,000.00 100%
	1933		385,831,000.00 19.1%	108,651,000.00 ⁶ 5.4%	1,532,449,000.00 75.5%	2,026,931,000.00 100%

¹ This sampling was limited to those estates the gross assets of which (before deduction of debts, administrative expenses, etc.) were in the sum of \$100,000 or more. Oakes, E. E., "The Liquidity of Large Estates in Massachusetts; 1932-1934," *Bulletin*, National Tax Association, June, 1938, p. 272.

² This total consists of both tangible personalty and certain types of intangible personalty as follows: household effects, jewelry, automobiles, promissory notes, shares in partnerships, etc. It will be noted, therefore, that the total of intangible personalty is less than it should be because of the inclusion of certain intangible items in this category. Oakes, E. E., *op. cit.*, p. 271.

³ Hicks, H. S., "What Part of Our Wealth Is Real Estate?," *Bulletin*, National Tax Association, November, 1930, p. 38.

⁴ These data were reported by Mr. Robert H. Jackson of the United States Department of the Treasury on the occasion of the Hearings before the Committee on Finance, United States Senate, Seventy-Fourth Congress, First Session, on H.R. 8974, p. 197. These data report the composition of estates filed under the Federal Estate Tax for the calendar years 1932 and 1933.

⁵ This amount was reported as a "miscellaneous" category. Apparently it includes tangible personalty principally although some intangible items may be included also.

⁶ *Ibid.*

cedents having estates, but also afford perhaps the only complete official statement of the total value of each estate. In both scope and accessibility, therefore, these records seem to offer the best available criterion of the personal distribution of wealth."²² It is recognized by the Commission that its sampling of probated estates, although large, is not entirely satisfactory because of the total population of the United States and the wide variation in economic status. The Commission believes, however, that its survey represents "a greater and more carefully selected number of individual probate records than have heretofore been used for this purpose, and that it is a sufficiently good sample to give an approximately correct picture of the facts."²³

In the examination of the 43,512 probated estates, realty was reported separately from personalty for 41,788 estates. Of the total sampling, therefore, 1,724 probates could not be used to show the composition of personal wealth because of failure to differentiate the classes of property. For the 41,788 estates the total value was \$645,019,072, and realty was found to be 33.4 per cent. Table VII indicates the proportions of realty to personalty (tangible and intangible) for estates classified as to total value size. It will be observed that there is a greater relative direct holding of realty on the part of persons of moderate wealth than those of little wealth, or those of great wealth. The largest relative holding of realty is found for the group having estates in the \$2,500 to \$5,000 value class.

TABLE VII
RELATIVE DISTRIBUTION OF REALTY AND PERSONALTY AS INDICATED
BY PROBATE DATA (1912-1923, Inclusive)¹

Size group	Number of estates	Total value	Value of realty	Value of personalty	Per cent of realty to total estate
Under \$500.....	5,963	\$ 1,540,259	\$ 269,351	\$ 1,270,908	17.4
\$500 to \$1,000.....	4,655	3,271,735	863,366	2,408,369	26.3
\$1,000 to \$2,500.....	8,428	13,669,659	5,433,175	8,236,484	39.7
\$2,500 to \$5,000.....	7,286	25,946,825	12,920,825	13,026,000	49.8
\$5,000 to \$10,000.....	6,140	43,154,163	20,721,407	22,432,756	48.0
\$10,000 to \$25,000.....	5,247	81,323,297	36,395,437	44,927,860	44.7
\$25,000 to \$50,000.....	2,110	73,774,697	31,864,916	41,909,781	43.2
\$50,000 to \$100,000.....	1,046	72,227,823	28,262,023	43,965,800	39.1
\$100,000 to \$250,000.....	625	93,294,206	28,654,575	64,639,631	30.7
\$250,000 to \$500,000.....	172	57,827,548	16,477,797	41,349,751	28.5
\$500,000 to \$1,000,000.....	73	50,108,760	9,008,650	41,100,110	18.0
\$1,000,000 and over.....	43	128,880,100	24,410,378	104,469,722	18.9
TOTAL.....	41,788	\$645,019,072	\$215,281,900	\$429,737,172	33.4

¹ Federal Trade Commission, *National Wealth and Income*, Senate Document No. 126 (1926), Table 13, p. 62.

²² Federal Trade Commission, *op. cit.*, p. 56.

²³ *Ibid.*, p. 57. The probate records examined were those of selected counties in the states of Massachusetts, New Hampshire, Maryland, North Carolina, Georgia, Texas, Oklahoma, Kansas, Idaho, Iowa, Wisconsin, North Dakota, and the District of Columbia.

Only 18,771 of the 43,512 probated estates examined reported the composition of the personalty. The total personalty of the 18,771 estates was in the amount of \$282,795,165, of which stocks and bonds accounted for 50.1 per cent. With the exception of estates of \$1,000,000 and above, the proportions of stocks and bonds increased substantially with estate size. Personalty in the form of cash, however, was largest for estates under \$500, representing 71.3 per cent of total personalty, decreasing rapidly with increases in the size of estates. The composition of the personalty and the relative distribution of the several items are shown in Table VIII.

Estates of \$1,000,000 and Above. A special study of all estates of \$1,000,000 and above which were probated in New York City, Philadelphia, and Chicago, 1918 to 1923 inclusive, was made by the Commission. Of the 540 estates covered in this group, 401 were in New York, 59 in Philadelphia, and 80 in Chicago. These estates had a total probated value of \$2,084,543,474. Reference to Table IX-A discloses that 86.3 per cent of the estates were less than \$5,000,000 and held 45 per cent of the total estate value. Nine estates, or 1.6 per cent of the group, on the other hand, represented 26 per cent of the aggregate value of the estates. The average value of the New York estates was \$4,128,000; of Philadelphia estates, \$2,315,000; and of Chicago estates, \$3,656,000.²⁴ The average value for all estates was \$3,860,266.

In Table IX-B is shown the composition of the 540 estates divided as to realty and personalty for the different value classes of estates. For the estates as a whole, 14.4 per cent consisted of realty, with 85.6 per cent in the form of personalty. This is in contrast with 33.4 per cent realty and 66.6 per cent personalty for estates in general. (See Table VII.) Of the 540 estates, 104, or approximately 20 per cent, contained no realty directly held.²⁵ The Commission reports that a survey of 661 estates of \$1,000,000 and above filed under the federal estate tax for 1922 and 1923 disclosed that the value of realty was 14.1 per cent of the total estate value of \$1,751,715,965.²⁶ This corresponds closely with 14.4 per cent realty for the 540 estates above.

Table IX-C indicates the composition of the personalty and the relative distribution of the personalty items for the various value classes of estates. With stocks and bonds accounting for 77.7 per cent of total personalty, other items represent 22.3 per cent only. This is in comparison with 50.1 per cent stocks and bonds and 49.9 per cent for other items of personalty for estates in general. (See Table VIII.) Returns under the federal estate tax for 1922 and 1923 for the 661 estates, to which reference has been made, reported stocks 51.9 per cent and bonds 22.8 per cent of the total value of the personalty.²⁷ For the 540 estates analyzed in Table IX-C stocks were 53.9 per cent and bonds 23.8 per cent of total personalty. A high degree of similarity exists.

²⁴ Federal Trade Commission, *op. cit.*, p. 67.

²⁵ *Ibid.*, p. 68.

²⁶ *Ibid.*

²⁷ *Ibid.*, p. 69.

TABLE VIII
RELATIVE DISTRIBUTION OF PERSONAL PROPERTY AS INDICATED BY PROBATE DATA (1912-1923)¹

Size group	Number of estates	Total personalty	PERCENTAGE DISTRIBUTION OF PERSONALTY						Total
			Stocks	Bonds	Real estate notes	Other notes	Cash	Misc.	
Under \$500.....	2,858	\$ 662,341	2.3	2.2	1.1	2.2	71.3	20.9	100.0
\$500 to \$1,000.....	1,967	1,220,883	3.5	3.1	2.7	3.3	71.2	16.2	100.0
\$1,000 to \$2,500.....	3,391	4,137,061	5.3	4.3	4.5	4.6	63.6	17.7	100.0
\$2,500 to \$5,000.....	2,867	6,504,824	9.7	6.1	8.1	5.2	54.5	16.4	100.0
\$5,000 to \$10,000.....	2,770	11,434,556	12.3	8.5	12.5	5.2	45.6	15.9	100.0
\$10,000 to \$25,000.....	2,612	23,872,462	22.8	9.8	14.8	5.6	34.1	12.9	100.0
\$25,000 to \$50,000.....	1,108	23,798,567	32.5	13.0	14.1	4.8	21.5	14.1	100.0
\$50,000 to \$100,000.....	600	27,088,629	37.1	13.9	15.6	4.3	16.7	12.4	100.0
\$100,000 to \$250,000.....	402	43,218,841	41.9	17.7	12.9	4.3	12.4	10.8	100.0
\$250,000 to \$500,000.....	115	27,507,200	46.4	19.7	11.3	5.5	7.6	9.5	100.0
\$500,000 to \$1,000,000.....	51	28,348,435	49.2	21.7	6.5	2.6	5.2	14.8	100.0
\$1,000,000 and over.....	30	85,001,366	35.1	13.6	7.2	5.1	2.5	36.5	100.0
TOTAL.....	18,771	\$282,795,165	35.4	14.7	10.6	4.7	14.7	19.9	100.0

¹ Federal Trade Commission, *National Wealth and Income*, Senate Document No. 126 (1926), Table 15, page 64.

E. COMPOSITION OF PROPERTY IN PROBATED ESTATES IN WASHINGTON,
BY COUNTIES AND BY YEARS

Variations in the composition of property of probated estates for King, Spokane, Skagit, Chelan, Jefferson and Douglas counties in Washington for the years 1928, 1933, and 1935 are found in Table X. Property is classified as to realty, tangible personalty, and intangible personalty. In general the variation by years above and below the average for the three years for each class of property for each county is not so great as would be expected, possibly, in view of the limited sampling within each county. Jefferson County, with 11.69 per cent realty in 1935 and 41.54 per cent in 1933, and an average of realty of 23.65 per cent, shows relatively wide dispersion. (In explanation, see footnote, Table V.) For Douglas County, the proportions of intangible personalty varied from a low of 5.22 per cent in 1933 to a high of 26.61 per cent in 1935, with an average ratio of 21.42 per cent. The proportions of tangible personalty for Jefferson County varied from 1.61 per cent in 1935 to 11.17 per cent in 1933, with an average of 3.80 per cent. With the comparatively small number of probated estates each year, particularly in the sparsely populated rural counties, one relatively large estate will influence greatly the relative composition of property for any one year. For the more densely populated urban counties, King and Spokane, with a larger annual volume of probates, less variation above and below the average for the several classes of property, as compared with the rural counties, will be noted.

F. DETAILED COMPOSITION OF ESTATES PROBATED IN WASHINGTON

Table XI-A presents the actual values of property classified as to realty, tangible personalty (sub-classified as to household goods and other tangible personalty), and intangible personalty (sub-classified as to United States securities, state and local government securities, foreign securities, corporation bonds, corporation stocks, and other intangibles) for the six Washington counties and for the 7,992 probated estates.

In Table XI-B the actual values as shown in Table XI-A are expressed relatively on a percentage basis. Tangible personalty in the form of household goods is relatively constant for each of the six counties, although "other tangible personalty" varies widely. A decided lack of uniformity is to be observed in the relative proportions of the different types of intangible personalty among the counties. Douglas County probates contained the largest relative holding of United States securities, 4.70 per cent, with Jefferson County (another rural county) the smallest proportion, .33 per cent. King County estates held the largest proportion of state and local bonds, 4.49 per cent, while none of these securities was in the estates of Jefferson and Douglas counties. Wide variation will be seen in the holding of foreign securities in two rural counties, Jefferson estates with 5.82 per cent, and Douglas estates with none, representing the extremes. The largest proportions of corporation bonds are found in the estates of the urban counties, King with 6.98 per cent, and Spokane with 3.89 per cent. None of these securi-

TABLE IX
A
ESTATES OF \$1,000,000 AND OVER PROBATED IN NEW YORK, PHILADELPHIA, AND CHICAGO, 1918-1923, INCLUSIVE,
GROUPED ON A BASIS OF SIZE¹

Size group	Number of estates	Value of estates	Per cent of total number	Per cent of total value
Under \$2,500,000.....	347	\$ 521,704,494	64.3	25.0
\$2,500,000 to \$5,000,000.....	119	415,809,517	22.0	20.0
\$5,000,000 to \$10,000,000.....	42	283,557,682	7.8	13.6
\$10,000,000 to \$25,000,000.....	23	321,744,677	4.3	15.4
\$25,000,000 to \$50,000,000.....	4	143,527,405	.7	6.9
\$50,000,000 to \$100,000,000.....	4	295,615,260	.7	14.2
\$100,000,000 to \$250,000,000.....	1	102,584,439	.2	4.9
TOTAL.....	540	\$2,084,543,474	100.0	100.0
AVERAGE.....		3,860,266		

B
RELATIVE DISTRIBUTION OF REALTY AND PERSONALTY IN 540 ESTATES OF \$1,000,000 AND OVER, 1918-1923, GROUPED
ON A BASIS OF SIZE¹

Size group	Number of estates	Total Value	Realty	Personalty	Per cent of realty to total estate
Under \$2,500,000.....	347	\$ 521,704,494	\$ 74,897,151	\$ 446,807,343	14.4
\$2,500,000 to \$5,000,000.....	119	415,809,517	47,619,576	368,189,941	11.5
\$5,000,000 to \$10,000,000.....	42	283,557,682	38,943,517	244,614,165	13.7
\$10,000,000 to \$25,000,000.....	23	321,744,677	76,775,078	244,969,599	23.9
\$25,000,000 to \$50,000,000.....	4	143,527,405	8,654,681	134,872,724	6.0
\$50,000,000 to \$100,000,000.....	4	295,615,260	49,512,943	246,102,317	16.7
\$100,000,000 to \$250,000,000.....	1	102,584,439	2,936,550	99,647,889	2.9
TOTAL.....	540	\$2,084,543,474	\$299,339,496	\$1,785,203,978	14.4

C
RELATIVE DISTRIBUTION OF PERSONAL PROPERTY IN 540 ESTATES OF \$1,000,000 AND OVER, 1918-1923, GROUPED
ON A BASIS OF SIZE¹

Size group	Number of estates	Total Personalty	PERCENTAGE DISTRIBUTION OF PERSONALTY						Total per cent
			Stocks	Bonds	Real estate notes	Other notes	Cash	Misc.	
\$1,000,000 to \$2,500,000.....	347	\$ 446,807,343	52.4	24.6	6.1	2.7	3.9	10.3	100.0
\$2,500,000 to \$5,000,000.....	119	368,189,941	56.6	25.4	4.3	2.4	5.1	6.2	100.0
\$5,000,000 to \$10,000,000.....	42	244,614,165	58.1	19.8	2.9	2.2	3.2	13.8	100.0
\$10,000,000 to \$25,000,000.....	23	244,969,599	50.4	28.4	3.1	1.3	3.0	13.8	100.0
\$25,000,000 to \$50,000,000.....	4	134,872,724	49.3	26.4	11.8	3.6	1.6	7.3	100.0
\$50,000,000 to \$100,000,000.....	4	246,102,317	64.8	9.2	2.1	5.1	4.0	14.8	100.0
\$100,000,000 to \$250,000,000.....	1	99,647,889	29.1	45.7	.1	22.6	.1	2.4	100.0
TOTAL.....	540	\$1,785,203,978	53.9	23.8	4.4	3.9	3.6	10.4	100.0

¹ Federal Trade Commission, *National Wealth and Income*, Senate Document No. 126 (1926), Tables 17, 18, and 19, pp. 67-68.

TABLE A
COMPOSITION OF PROPERTY IN ESTATES PROBATED IN WASHINGTON, BY COUNTIES, BY YEARS

County	Year	TOTAL		REALTY		TANGIBLE PERSONALTY		INTANGIBLE PERSONALTY	
		Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent
King.....	1928	\$17,813,702	100.00	\$ 7,975,122	44.77	\$ 609,482	3.42	\$ 9,229,098	51.81
	1933	15,975,654	100.00	5,123,067	32.07	397,414	2.49	10,455,173	65.54
	1935	19,974,549	100.00	6,467,992	32.38	585,586	2.93	12,920,971	64.69
		\$53,763,905	100.00	\$19,566,181	36.39	\$1,592,482	2.96	\$32,605,242	60.65
Spokane.....	1928	\$ 9,472,442	100.00	\$ 4,154,436	43.86	\$ 386,119	4.07	\$ 4,931,887	52.07
	1933	4,909,707	100.00	2,221,429	45.24	167,809	3.42	2,520,469	51.34
	1935	6,096,249	100.00	2,626,779	43.09	189,261	3.10	3,280,209	53.81
		\$20,478,398	100.00	\$ 9,002,644	43.96	\$ 743,189	3.63	\$10,732,565	52.41
Skagit.....	1928	\$ 891,784	100.00	\$ 512,718	57.49	\$ 72,837	8.17	\$ 306,229	34.34
	1933	633,294	100.00	398,952	63.00	32,251	5.09	202,091	31.91
	1935	908,814	100.00	518,896	57.10	53,602	5.90	336,316	37.00
		\$ 2,433,892	100.00	\$ 1,430,566	58.78	\$ 158,690	6.52	\$ 844,636	34.70
Chelan.....	1928	\$ 1,060,668	100.00	\$ 639,950	60.33	\$ 49,106	4.63	\$ 371,612	35.04
	1933	1,140,589	100.00	514,096	45.07	25,669	2.25	600,824	52.68
	1935	838,256	100.00	438,204	52.28	29,081	3.47	370,971	44.25
		\$ 3,039,513	100.00	\$ 1,592,250	52.38	\$ 103,856	3.42	\$ 1,343,407	44.20
Jefferson ¹	1928	\$ 223,324	100.00	\$ 74,788	33.49	\$ 8,805	3.94	\$ 139,731	62.57
	1933	90,728	100.00	37,685	41.54	10,139	11.17	42,904	47.29
	1935	319,577	100.00	37,350	11.69	5,153	1.61	277,074	86.70
		\$ 633,629	100.00	\$ 149,823	23.65	\$ 24,097	3.80	\$ 459,709	72.55
Douglas.....	1928	\$ 201,541	100.00	\$ 143,691	71.30	\$ 13,775	6.84	\$ 44,075	21.86
	1933	64,473	100.00	55,774	86.51	5,335	8.27	3,364	5.22
	1935	183,753	100.00	115,858	63.05	18,989	10.34	48,906	26.61
		\$ 449,767	100.00	\$ 315,323	70.11	\$ 38,099	8.47	\$ 96,345	21.42
TOTAL.....	1928	\$29,663,461	100.00	\$13,500,705	45.51	\$1,140,124	3.84	\$15,022,632	50.65
	1933	22,814,445	100.00	8,351,003	36.60	638,617	2.80	13,824,825	60.60
	1935	28,321,198	100.00	10,205,079	36.03	881,672	3.11	17,234,447	60.86
		\$80,799,104	100.00	\$32,056,787	39.67	\$2,660,413	3.29	\$46,081,904	57.04

¹ See footnote, Table V.

TABLE XI
DETAILED COMPOSITION OF ESTATES PROBATED IN WASHINGTON

County	A. ACTUAL VALUES									
	Total	TANGIBLE PERSONALTY				INTANGIBLE PERSONALTY				
		Realty	Household Goods	Other	U.S. Sec.	State and Local	Foreign Sec.	Corp. Bonds	Corp. Stocks	Other Intang.
King.....	\$53,763,905	\$19,566,181	\$ 726,168	\$ 866,314	\$ 813,865	\$2,410,572	\$ 709,976	\$3,750,382	\$12,465,507	\$12,454,940
Spokane.....	20,478,298	9,002,644	253,899	489,290	420,780	271,275	309,039	797,091	4,122,972	4,811,408
Chelan.....	3,039,573	1,592,250	38,217	65,639	74,383	87,580	26,543	52,292	222,134	880,475
Skagit.....	2,433,892	1,430,566	38,347	120,343	44,593	9,548	3,372	85,509	112,450	589,164
Jefferson ¹	633,629	149,823	7,587	16,510	2,097	.....	36,860	13,902	236,172	170,678
Douglas.....	449,767	315,323	6,883	31,216	21,150	8	.....	.....	17,271	57,916
TOTAL.....	\$80,799,104	\$32,056,787	\$1,071,101	\$1,589,312	\$1,376,868	\$2,778,983	\$1,085,790	\$4,699,176	\$17,176,506	\$18,964,581
B. PERCENTAGE BASIS										
King.....	100.00%	36.39%	1.35%	1.61%	1.51%	4.49%	1.32%	6.98%	23.19%	23.16%
Spokane.....	100.00	43.96	1.24	2.39	2.06	1.32	1.51	3.89	20.13	23.50
Chelan.....	100.00	52.38	1.26	2.16	2.45	2.88	.87	1.72	7.31	23.97
Skagit.....	100.00	58.78	1.58	4.94	1.83	.39	.14	3.51	4.62	24.21
Jefferson ¹	100.00	23.65	1.20	2.60	.33	.....	5.82	2.19	37.27	26.94
Douglas.....	100.00	70.11	1.53	6.94	4.70	.....	.....	.....	3.84	12.88
TOTAL.....	100.00%	39.67%	1.33%	1.96%	1.70%	3.44%	1.35%	5.82%	21.26%	23.47%

¹ See footnote, Table V.

ties was in the estates of Douglas County. With the exception of Jefferson County, the estates of which held 37.27 per cent corporation stocks, the estates of the urban counties, King with 23.19 per cent, and Spokane with 20.13 per cent, contained very much larger proportions of these securities. "Other intangibles" are found to be distributed in relatively constant proportions for all counties, with the exception of Douglas with 12.88 per cent, and with the securities of this class held in comparatively large quantities. For the various classes of intangibles for all counties, "other intangibles" ranked first in relative amount, 23.47 per cent; corporation stocks second, 21.26 per cent; corporation bonds third, 5.82 per cent; state and local government securities fourth, 3.44 per cent; United States securities fifth, 1.70 per cent; and foreign securities last, 1.35 per cent.

G. COMPOSITION OF INTANGIBLE PROPERTY IN ESTATES PROBATED IN WASHINGTON

Table XII classifies total intangibles according to non-government intangibles and government securities, by counties. Chart IV reveals graphically the relative proportions of these two classes of intangibles. Reference to Table XII discloses that there is less variation among the counties in the relative proportions of non-government intangibles (Skagit being highest with 93.19 per cent, Douglas being lowest with 78.04 per cent, with an average of 86.63 per cent) than among the counties in the relative proportions of government securities (Douglas being highest with 21.96 per cent, Skagit being lowest with 6.81 per cent, with an average of 11.37 per cent).

TABLE XII
COMPOSITION OF INTANGIBLE PROPERTY IN ESTATES
PROBATED IN WASHINGTON

County	Total Intangibles	Non-Gov. Intangibles		Gov. Securities	
		Total	Percentage	Total	Percentage
King.....	\$32,605,242	\$28,670,829	87.93%	\$3,934,413	12.07%
Spokane.....	10,732,565	9,731,471	90.67	1,001,094	9.33
Chelan.....	1,343,407	1,154,901	85.97	188,506	14.03
Skagit.....	844,636	787,123	93.19	57,513	6.81
Jefferson.....	459,709	420,752	91.53	38,957	8.47
Douglas.....	96,345	75,187	78.04	21,158	21.96
	\$46,081,904	\$40,840,263	88.63%	\$5,241,641	11.37%

H. COMPOSITION OF PROPERTY VALUES IN ESTATES PROBATED IN WASHINGTON CLASSIFIED ACCORDING TO SIZE OF ESTATE

In Table XIII-A the actual value composition of estates is shown with reference to realty, tangible personalty, and intangible personalty, with estates classified as to size. Table XIII-B lists the relative proportions of realty, tangible per-

CHART IV

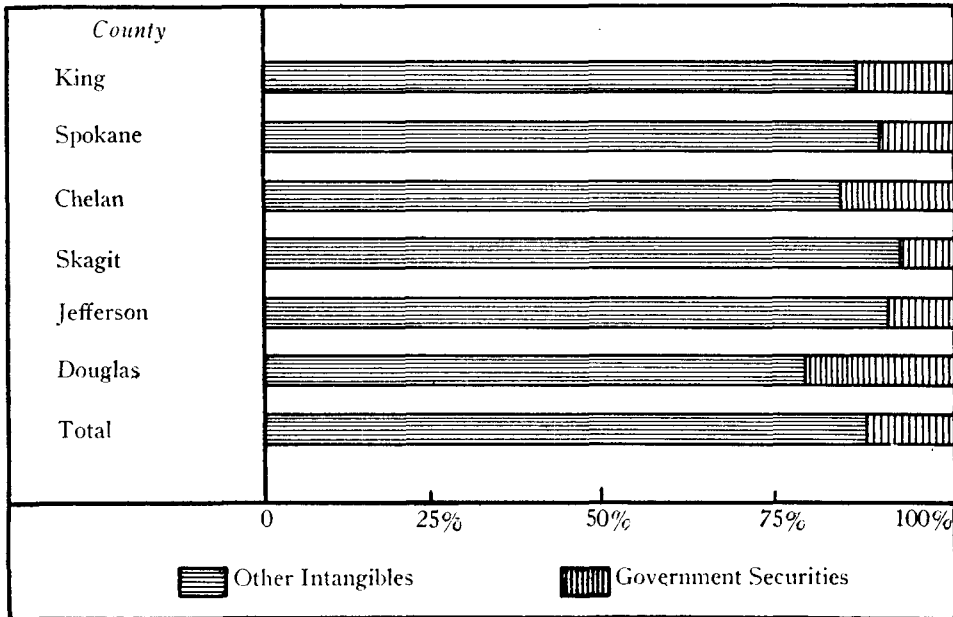
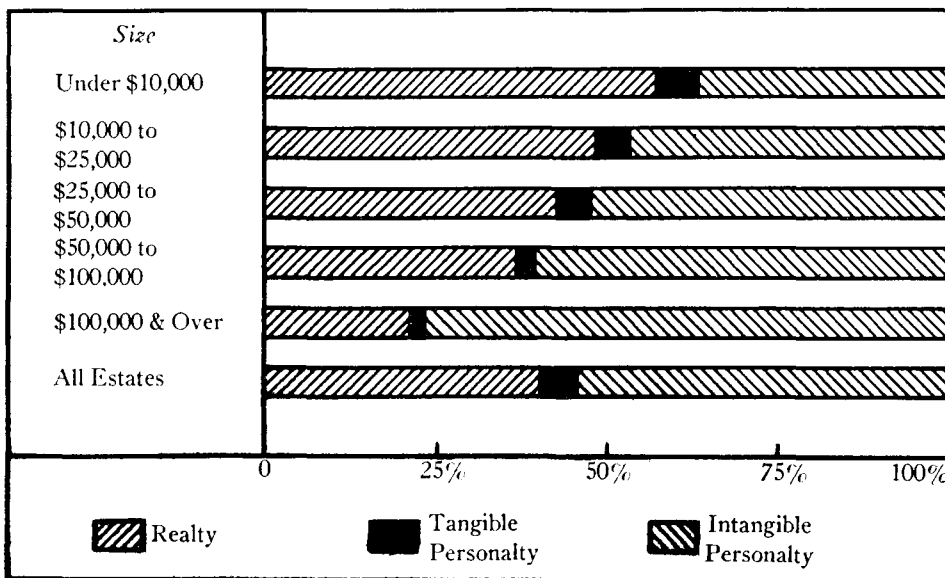
COMPOSITION OF INTANGIBLE PROPERTY IN ESTATES PROBATED IN WASHINGTON DURING 1928, 1933, AND 1935, BY COUNTIES¹¹ See Table XII.

TABLE XIII

COMPOSITION OF PROPERTY VALUES IN ESTATES PROBATED IN WASHINGTON CLASSIFIED ACCORDING TO SIZE OF ESTATE

A. Actual Values					
Estate Sizes	No. of Estates	Total Value	Realty	Tangible Personalty	Intangible Personalty
Under \$10,000	6,575	\$21,175,722	\$12,275,150	\$1,268,527	\$ 7,632,045
\$10,000 to \$25,000 . .	880	12,738,616	6,240,165	514,174	5,984,277
\$25,000 to \$50,000 . .	309	10,881,685	4,570,169	411,090	5,900,426
\$50,000 to \$100,000	126	8,788,259	3,173,851	173,311	5,441,097
\$100,000 and above	102	27,214,822	5,797,452	293,311	21,124,059
	7,992	\$80,799,104	\$32,056,787	\$2,660,413	\$46,081,904
B. Percentage Distribution					
Under \$10,000	6,575	100.00%	57.97%	5.99%	36.04%
\$10,000 to \$25,000 . .	880	100.00	48.99	4.03	46.98
\$25,000 to \$50,000 . .	309	100.00	42.00	3.78	54.22
\$50,000 to \$100,000	126	100.00	36.11	1.97	61.92
\$100,000 and above	102	100.00	21.30	1.07	77.63
	7,992	100.00%	39.67%	3.29%	57.04%

CHART V
COMPOSITION OF PROPERTY IN ESTATES PROBATED IN WASHINGTON
CLASSIFIED ACCORDING TO SIZE¹



¹ See Table XIII.

sonalty, and intangible personalty according to estate size. Chart V represents these data graphically.

Of the 7,992 estates, 6,575 are found to have a total individual value of less than \$10,000, while 102 estates have an individual value of \$100,000 and above. The 6,575 estates have a smaller aggregate value than the 102 estates, with the former containing \$21,175,722, and the latter \$27,214,822.

For estates less than \$10,000 in size, realty exceeds personalty, both tangible and intangible, being 57.97 per cent of total estate value as compared with 42.03 per cent for the personalty. It will be noticed that the proportions of realty and of tangible personalty show a consistent decrease, with the proportions of intangible personalty increasing sharply as the estates increase in size. Estates \$100,000 and above are seen to be largely in the form of intangible personalty, 77.63 per cent with realty 21.30 per cent and tangible personalty 1.07 per cent.

I. COMPOSITION OF PROPERTY IN THE TYPICAL (AVERAGE) ESTATE FOR EACH SIZE CLASS FOR ESTATES PROBATED IN WASHINGTON

In Table XIV the average estate within each value class is shown. For the smallest estates, those under \$10,000, the average estate is \$3,221, of which \$1,867 consists of realty, \$193 of tangible personalty, and \$1161 of intangible personalty. For the largest estates, those of \$100,000 and above, the average estate is \$266,812, with realty in the amount of \$56,838, tangible personalty \$2,876, and intangible personalty \$207,098. The variation in the composition of property between the average estate in the smallest and in the largest value classes is seen to be most pronounced. The average for all estates (7,992) is in the sum of \$10,110, with \$4,011 in realty, \$333 in tangible personalty, and \$5,766 in intangible personalty.

TABLE XIV
COMPOSITION OF PROPERTY IN THE TYPICAL (AVERAGE)
ESTATE FOR EACH SIZE CLASS

(For Estates Probated in Washington.)					
Estate Size	Total	Realty	Tangible Personalty	Govern. Sec.	Other Intangibles
Under \$10,000	\$ 3,221	\$ 1,867	\$ 193	\$ 53	\$ 1,108
\$10,000 to \$25,000	14,476	7,091	585	567	6,233
\$25,000 to \$50,000	35,216	14,790	1,331	2,089	17,006
\$50,000 to \$100,000	69,748	25,189	1,376	4,933	38,250
\$100,000 and above	266,812	56,838	2,876	30,642	176,456
ALL ESTATES	\$ 10,110	\$ 4,011	\$ 333	\$ 656	\$ 5,110

J. COMPOSITION OF PROPERTY VALUES IN ALL ESTATES OF \$500,000 AND ABOVE FOR ESTATES PROBATED IN WASHINGTON

Of the 7,992 probated estates in the sampling, thirteen estates, ten in King County and three in Spokane County, were found to have values in excess of \$500,000. Table XV-A lists the actual values of the thirteen estates, and the realty, tangible personalty, and intangible personalty therein. Table XV-B lists the relative proportions of these classes of property for this group of estates. For the estates as a whole, the proportions are 24.44 per cent realty, 1.08 per cent tangible personalty, and 74.48 per cent intangible personalty. The proportion of intangible personalty would be very much higher and that of realty decidedly lower were it not for estates Numbers 28,368, 22,242, 45,037, and 45,938 which contain high proportions of realty counter to the composition of property in the other nine estates. Estate Number 28,368 represents one extreme in the group, with only .34 per cent intangible personalty, while in estate Number 57,602 is found the opposite extreme, with 95.63 per cent intangible personalty.

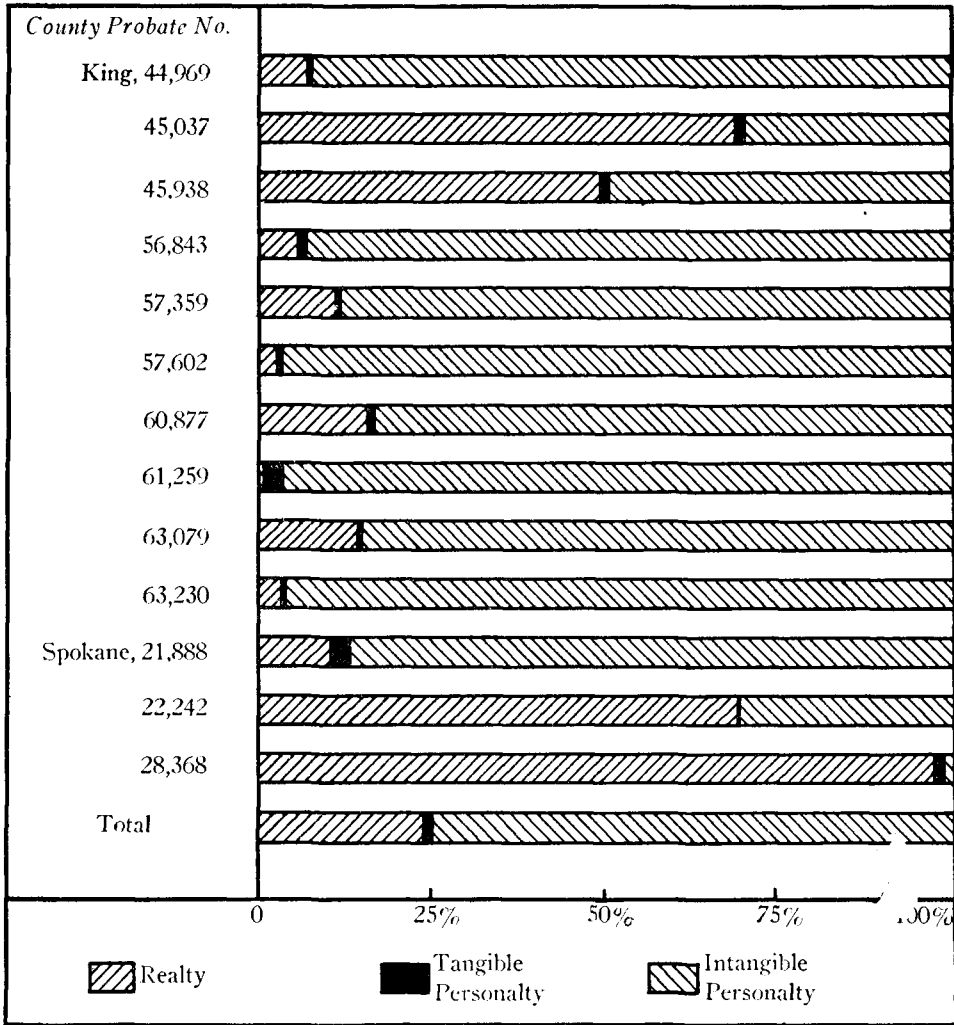
TABLE XV
COMPOSITION OF PROPERTY VALUES IN ALL ESTATES OF \$500,000 AND ABOVE
(For Estates Probated in Washington.)

A. Actual Values					
County	Probate File No.	Total	Realty	Tangible Personalty	Intangible Personalty
King.....	44,969	\$ 778,060	\$ 57,625	\$ 2,360	\$ 718,075
King.....	45,037	777,695	544,700	6,400	226,595
King.....	45,938	510,178	257,535	675	251,968
King.....	56,843	605,620	35,008	6,785	563,827
King.....	57,359	816,943	94,806	900	721,237
King.....	57,602	789,554	33,788	775	754,991
King.....	60,877	1,509,558	235,730	3,010	1,270,818
King.....	61,259	1,339,257	15,960	59,722	1,263,575
King.....	63,079	1,239,208	177,363	121	1,061,724
King.....	63,230	739,758	31,640	1,850	706,268
Spokane.....	21,888	761,802	80,400	27,674	653,728
Spokane.....	22,242	1,030,312	725,000	7,585	297,727
Spokane.....	28,368	503,642	496,934	5,000	1,708
TOTAL...		\$11,401,587	\$2,786,489	\$122,857	\$8,492,241
B. Percentage Distribution					
King.....	44,969	100.00%	7.40%	.30%	92.30%
King.....	45,037	100.00	70.04	.82	29.14
King.....	45,938	100.00	50.48	.13	49.39
King.....	56,843	100.00	5.78	1.12	93.10
King.....	57,359	100.00	11.60	.11	88.29
King.....	57,602	100.00	4.28	.09	95.63
King.....	60,877	100.00	15.61	.20	84.19
King.....	61,259	100.00	1.19	4.46	94.35
King.....	63,079	100.00	14.31	.01	85.68
King.....	63,230	100.00	4.28	.25	95.47
Spokane.....	21,888	100.00	10.55	3.64	85.81
Spokane.....	22,242	100.00	70.37	.74	28.89
Spokane.....	28,368	100.00	98.67	.99	.34
TOTAL...		100.00%	24.44%	1.08%	74.48%
C. Typical Estate					
Average.....		\$ 877,045	\$ 214,345	\$ 9,451	\$ 653,249

With the exceptions noted above, it is evident that the great majority of the estates have an overwhelming proportion of intangibles. This may be seen clearly by reference to Chart VI.

The typical or average estate of the class of \$500,000 and above is in the amount of \$877,045, of which \$214,345 is in the form of realty, \$9,451 in tangible personalty, and \$653,249 in intangible personalty. (See Table XV-C.)

CHART VI
 COMPOSITION OF PROPERTY IN ALL ESTATES OF \$500,000 AND OVER IN
 ESTATES PROBATED IN WASHINGTON¹



¹ See Table XV—B.

TABLE XVI
COMPOSITION OF PROPERTY VALUES IN ALL ESTATES CLASSIFIED ACCORDING TO SIZE OF ESTATE FOR
ESTATES PROBATED IN WASHINGTON

A. ACTUAL VALUES											
Estate Sizes	No. of Estates	Total	TANGIBLE PERSONALTY			INTANGIBLE PERSONALTY					
			Realty	Household Goods	Other	U.S. Sec.	State and Local	Foreign Sec.	Corp. Bonds	Stocks	Other Intang.
Under \$10,000	6,575	\$21,175,722	\$12,275,150	\$ 573,096	\$ 695,431	\$ 164,599	\$ 131,867	\$ 53,370	\$ 315,406	\$ 1,142,383	\$ 5,824,420
\$10,000 to \$25,000	880	12,738,616	6,240,165	178,787	335,387	202,262	163,536	133,459	499,702	1,189,127	3,796,191
\$25,000 to \$50,000	309	10,881,685	4,570,169	94,966	316,124	206,115	269,084	170,289	658,732	1,571,571	3,024,635
\$50,000 to \$100,000	126	8,788,259	3,173,851	76,397	96,914	103,388	372,174	146,029	479,235	1,957,964	2,382,307
\$100,000 and above	102	27,214,822	5,797,452	147,855	145,456	700,504	1,842,322	482,643	2,746,101	11,315,461	3,937,028
ALL ESTATES	7,992	\$80,799,104	\$32,056,787	\$1,071,101	\$1,589,312	\$1,376,868	\$2,778,983	\$1,085,790	\$4,699,176	\$17,176,506	\$18,964,581
B. PERCENTAGE DISTRIBUTION											
Under \$10,000	6,575	100.00%	57.97%	2.71%	3.28%	.78%	.62%	.25%	1.49%	5.40%	27.50%
\$10,000 to \$25,000	880	100.00	48.99	1.40	2.63	1.59	1.28	1.05	3.92	9.34	29.80
\$25,000 to \$50,000	309	100.00	42.00	.87	2.91	1.90	2.47	1.56	6.05	14.44	27.80
\$50,000 to \$100,000	126	100.00	36.11	.87	1.10	1.18	4.24	1.66	5.45	22.28	27.11
\$100,000 and above	102	100.00	21.30	.54	.53	2.57	6.78	2.14	10.09	41.58	14.47
ALL ESTATES	7,992	100.00%	39.67%	1.33%	1.96%	1.70%	3.44%	1.35%	5.82%	21.26%	23.47%

K. COMPOSITION OF PROPERTY VALUES IN ALL ESTATES CLASSIFIED ACCORDING TO SIZE OF ESTATE FOR ESTATES PROBATED IN WASHINGTON

Table XVI-A gives the detailed composition of property of all the probated estates (7,992), with the estates classified as to size. The relative proportions of the various classes of property arranged in accordance with estate size are found in Table XVI-B. It is significant to note that proportions of realty and tangible personalty—both household goods and “other tangible personalty,” fall from 57.97 per cent for estates under \$10,000 to 21.30 per cent for estates \$100,000 and above for realty; from 2.71 per cent to .54 per cent for household goods; and from 3.28 per cent to .53 per cent for “other tangible personalty.” The proportions of the various types of intangible personalty, on the other hand, reveal substantial increases, with the exception of “other intangibles,” which (proportion) remains relatively constant, except for estates \$100,000 and above, as estates increase in size. The holding of United States securities increases from .78 per cent for estates under \$10,000 to 2.57 per cent for estates \$100,000 and above; state and local securities from .62 per cent to 6.78 per cent; foreign securities from .25 per cent to 2.14 per cent; corporation bonds from 1.49 per cent to 10.09 per cent; and corporation stocks from 5.40 per cent to 41.58 per cent.

L. COMPOSITION OF INTANGIBLE PROPERTY CLASSIFIED ACCORDING TO SIZE FOR ESTATES PROBATED IN WASHINGTON

A breakdown of total intangibles between government securities and non-government intangibles for all estates is shown in Table XVII classified as to estate size. It will be observed that the relative proportion of government securities increases greatly as estates increase in size. For estates under \$10,000, the proportion is 4.58 per cent, for estates \$100,000 and above, 14.80 per cent. The fact that government securities have enjoyed substantial tax exemption heretofore may explain, in part, the greater proportions of these securities in the larger estates. The tax premium which has been placed upon the ownership of government (tax exempt) securities has undoubtedly encouraged persons of wealth to

TABLE XVII
COMPOSITION OF INTANGIBLE PROPERTY CLASSIFIED ACCORDING TO SIZE
FOR ESTATES PROBATED IN WASHINGTON

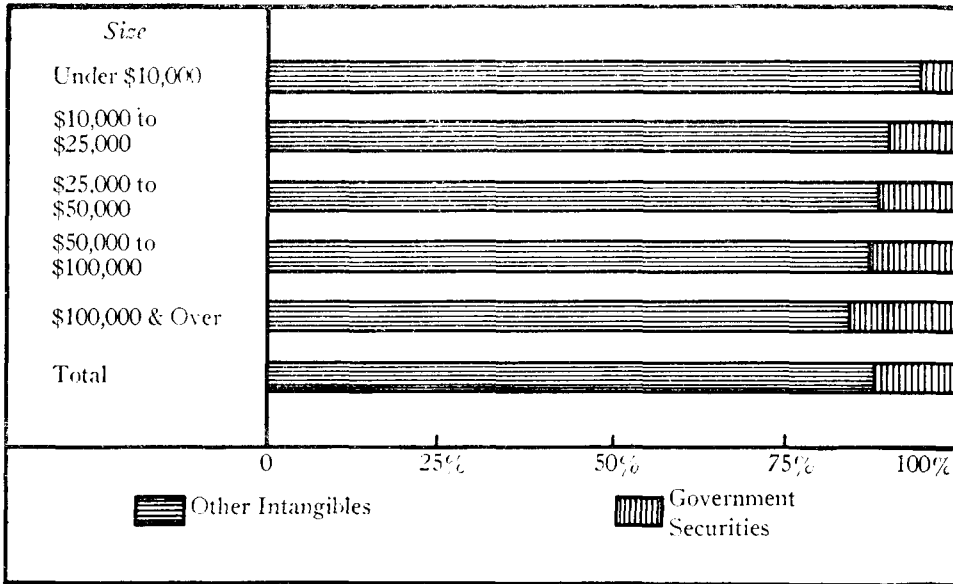
Estate Size	Total	Gov. Securities		Non-Gov. Intangibles	
		Total	Percentage	Total	Percentage
Under \$10,000	\$ 7,632,045	\$ 349,836	4.58%	\$ 7,282,209	95.42%
\$10,000 to \$25,000 . . .	5,984,277	499,257	8.34	5,485,020	91.66
\$25,000 to \$50,000 . . .	5,900,426	645,488	10.94	5,254,938	89.06
\$50,000 to \$100,000 . .	5,441,097	621,591	11.42	4,819,506	88.58
\$100,000 and above . . .	21,124,059	3,125,469	14.80	17,998,590	85.20
TOTAL	\$46,081,904	\$5,241,641	11.37%	\$40,840,263	88.63%

seize this opportunity of legal tax avoidance. The Federal surtax and state progressive tax rates in income taxation cause the tax advantage in the ownership of government securities to increase as income becomes larger. The relationship between greater proportions of government securities with increases in estate size is therefore not surprising.

Non-government intangibles display a tendency to decrease relatively as estates increase in size. This tendency is not especially pronounced, with estates of \$100,000 and above holding 85.20 per cent non-government intangibles as compared with 95.42 per cent for estates under \$10,000.

Chart VII illustrates these data graphically.

CHART VII
COMPOSITION OF INTANGIBLE PROPERTY CLASSIFIED ACCORDING TO SIZE FOR ESTATES PROBATED IN WASHINGTON



¹ See Table XVII.

M. PER CENT NUMBER OF ESTATES AND TYPES OF PROPERTY IN ESTATES PROBATED IN WASHINGTON CLASSIFIED ACCORDING TO SIZE

Table XVIII discloses that 82.27 per cent of the 7,992 estates (under \$10,000) held only 26.21 per cent of total property value; that 11.04 per cent of the estates (\$10,000 to \$25,000) had 15.76 per cent of total property value; that 3.86 per cent of the estates (\$25,000 to \$50,000) had 13.47 per cent of total property value; that 1.58 per cent of the estates (\$50,000 to \$100,000) had 10.88 per cent of total property value; and that 1.28 per cent of the estates (\$100,000 and above) had 33.68 per cent of total property value. It is striking that the last class

TABLE XVIII
 PER CENT NUMBER OF ESTATES AND TYPES OF PROPERTY IN ESTATES
 PROBATED IN WASHINGTON CLASSIFIED ACCORDING TO SIZE

Estate Size	No. of Estates	Total Value	Realty	Tangible Personalty	Intangible Personalty
Under \$10,000	82.27%	26.21%	38.29%	47.68%	16.56%
\$10,000 to \$25,000	11.01	15.76	19.47	19.33	12.99
\$25,000 to \$50,000	3.86	13.47	14.26	15.45	12.80
\$50,000 to \$100,000	1.58	10.88	9.90	6.51	11.81
\$100,000 and above	1.28	33.68	18.08	11.03	45.84
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

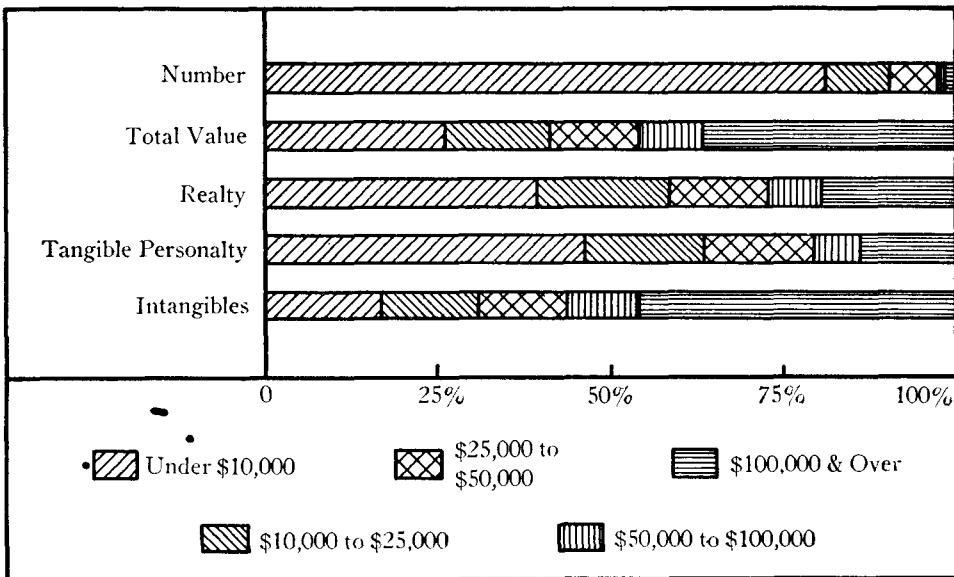
(size) of estates, 1.28 per cent of the total number, should contain a substantially larger property value, 33.68 per cent, than the first class (size) which represented 82.27 per cent of the total number of estates but which held only 26.21 per cent of aggregate property value.

Estates under \$10,000 (82.27 per cent of estates), however, had 38.29 per cent of total realty, 47.68 per cent of total tangible personalty, and but 16.56 per cent of total intangible personalty (which was 57.04 per cent of total property value). Estates of \$100,000 and above (1.28 per cent of estates), on the other hand, held 18.08 per cent of total realty, 11.03 per cent of total tangible personalty, and 45.84 per cent of total intangible personalty.

Chart VIII-A shows in graphical form the distribution of total property

CHART VIII-A

PERCENTAGE NUMBER OF ESTATES AND TYPES OF PROPERTY IN ESTATES PROBATED IN WASHINGTON CLASSIFIED ACCORDING TO SIZE¹

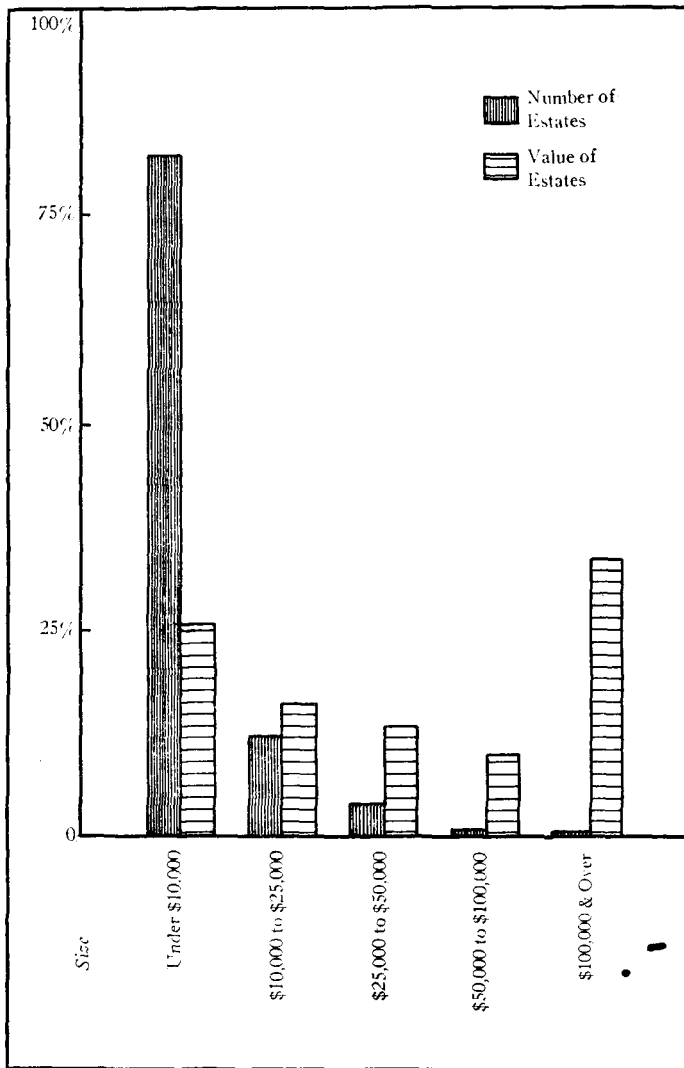


¹ See Table XVIII.

value among the various size groups of estates. Included also is the distribution of realty, tangible personalty, and intangible personalty.

Chart VIII-B relates the total number of estates in each size class to the total value of the estates, a comparison which illustrates the extreme unevenness of property distribution among estates.

CHART VIII-B
COMPARISON OF NUMBER OF ESTATES AND TOTAL VALUE OF PROPERTY
IN EACH SIZE GROUP IN ESTATES PROBATED IN WASHINGTON¹



¹ See Table XVIII.

Table XIX, which indicates the estimated distribution of inheritances based on United States 1935 estate values, following deduction of federal estate taxes, is in general confirmation of the uneven distribution of property as found in the state of Washington.

TABLE XIX
ESTIMATED DISTRIBUTION OF INHERITANCES, UNITED STATES 1935 ESTATE VALUES¹ (AFTER DEDUCTION OF FEDERAL ESTATE TAXES)

Ave. inheritance (in thousands of dollars)	No. of returns	Amount in class (in thousands of dollars)	Ave. inheritance (in thousands of dollars)	No. of returns	Amount in class (in thousands of dollars)
1.55.....	33,136	51,361	136.96.....	1,120	153,390
4.27.....	18,197	77,701	185.98.....	452	84,061
7.40.....	46,008	340,459	239.60.....	272	65,171
12.67.....	24,954	316,084	286.76.....	108	30,970
15.17.....	14,296	216,885	337.29.....	156	52,617
21.05.....	7,220	151,981	426.35.....	76	32,403
27.07.....	3,944	106,748	507.35.....	40	20,294
32.85.....	2,772	91,049	640.29.....	40	25,612
40.90.....	3,252	132,994	803.97.....	4	3,216
51.83.....	1,976	102,416	976.10.....	24	23,426
62.51.....	1,224	76,512	1,270.35.....	20	25,407
79.73.....	1,604	127,887	1,755.55.....	20	35,171
100.71.....	840	84,595			

¹ Committee on Finance, United States Senate, Seventy-Fourth Congress, First Session, *Hearings H.R. 8974* (1935), p. 197.

N. RELATIVE DISTRIBUTION OF PROPERTY AMONG DIFFERENT TYPES OF COMMUNITIES

Table XX shows the marked differences which exist in the relative distribution of realty, tangible personalty, and intangible personalty among the probated estates of rural and city residents in Washington. For purposes of this comparison, King and Spokane counties are regarded as representative of urban estates, and Skagit, Chelan, Douglas, and Jefferson counties as representative of rural estates. Realty is 53.19 per cent of the property values of rural estates and but 38.48 per cent of the property values of urban estates. Tangible personalty is, likewise, a larger proportion of total estate value of rural communities (4.95 per cent) than of urban communities (3.15 per cent). Intangible personalty, on the other hand, is only 41.85 per cent of total property value of estates in rural counties as compared with 58.37 per cent of total property value of estates in urban counties. These proportions are of major significance in relation to the Washington tax system, as intangible personalty is exempt from property taxation. The benefits of exemption, as the data indicate, are distributed most unequally as between rural and urban taxpayers. Individuals in rural communities are required to make a much greater relative contribution under the property tax than persons in urban

communities, as the former taxpayers have a substantially larger proportion of total property in the form of realty and tangible personalty.

It will be seen that the relative distribution of realty, tangible personalty, and intangible personalty among rural, town, and city communities in Texas (Table XX) follows the same trend as in Washington, but with different proportions. The country estates reveal a relatively large holding of realty and tangible personalty, and a relatively small proportion of intangibles. Estates in town communities have somewhat smaller proportions of realty and tangible personalty and a larger proportion of intangibles, although tangible property is still greater in relative amount than intangible property. Estates of city communities show tangible property evenly balanced with intangible property, with the latter amounting to 50 per cent of total property value.

The results of the survey of probated estates by the Federal Trade Commission support the findings in Washington and Texas. However, greater variations are observed in the relative distribution of realty, tangible personalty, and intangible personalty among estates in rural, town, and city communities than in Washington and Texas. With the separation of property into realty and personalty (tangible and intangible), estates in rural communities hold 50.6 per cent realty, estates in town communities, 41.9 per cent, and estates in city communities, 30.6 per cent. Personalty is in the proportions of 49.4 per cent of estates in rural communities, 58.1 per cent of estates in town communities, and 69.4 per cent of estates in city communities (Table XX).

TABLE XX
RELATIVE DISTRIBUTION OF PROPERTY AMONG DIFFERENT TYPES OF COMMUNITIES

Location	Period of Survey	Number of Estates	Type of Community	Total Property in Group	PER CENT		
					Realty	Tangible Personalty	Intangible Personalty
Washington.....	1928, 1933, 1935	7,992	Rural ¹	\$ 6,556,801	53.19	4.95	41.85
			Urban	74,242,303	38.48	3.15	58.37
			TOTAL....	\$ 80,799,104	39.67	3.29	57.04
Texas ²	1922-1931	25,187	Rural	\$ 42,366,559	59.81	8.61	31.61
			Town	116,668,992	56.31	5.31	38.41
			City	336,697,579	47.81	2.31	50.00
			TOTAL....	\$525,733,130	50.61	3.51	45.91
United States ³	1912-1923	41,788	Rural	\$ 57,862,059	50.6	49.4	(Tangible and Intangible)
			Town	54,739,262	41.9	58.1	
			City	532,417,751	30.6	69.4	
			TOTAL.....	\$645,019,072	33.4	66.6	

¹ See Table V. King and Spokane County probates are treated as urban estates; Skagit, Chelan, Douglas, and Jefferson county probates are treated as rural estates.

² Gabbard, L. P., *op. cit.*, Table 5, p. 12. Rural counties, counties without a town of 5,000 population; town counties, counties with towns of 5,000 to 50,000 population; city counties, counties with cities of more than 50,000 population.

³ Federal Trade Commission, *op. cit.* See Table 14, p. 64. No separation is made between tangible and intangible personalty.

III.

STATE AND LOCAL TAXATION IN WASHINGTON¹

A. STATE AND LOCAL TAX SYSTEM

For purposes of viewing the state and local tax system in perspective, with respect to its principal revenue elements, the following segregation may be made:

PROPERTY TAXATION

The property tax levies for 1938 were in the gross amount of \$41,630,000, of which the state levy was \$3,832,000, and local levies \$37,798,000. The use of the property tax has declined greatly, both absolutely and relatively, as has been indicated. The aggregate 1938 levy is but 52 per cent of the aggregate levy of 1931.

SALES AND EXCISE TAXATION

A tremendous absolute and relative increase in revenues from the greatly expanded program of sales and excise taxation subsequent to 1933 has offset in large measure the decrease in property tax revenues. The relative increase in sales and excise tax revenue, 1938 compared with 1931, is 331 per cent, or \$44,244,000 in 1938 compared with \$13,335,000 in 1931. Further, these data do not include the revenues derived from the augmented excise tax programs of municipal corporations in the state. These forms of taxation may be classified into three broad groups as follows:

(1) The *business and occupation tax* was enacted originally in 1933. Although described legally in statutory form as an excise tax, the business and occupation tax in its economic character may be denoted a "*multiple classified gross sales tax*." The revenue from this form of taxation for 1938 is reported in the amount of \$5,094,000.

The base of the tax is the "value of products, gross proceeds of sales, or gross income of the business, as the case may be."² Multiple economic functions are distinguished for the non-service industries, *e.g.*, the extractive, the manufacturing, the wholesaling and the retailing functions. The multiple function feature of the tax has served, among other purposes, to broaden the base of the tax and to diminish somewhat the tax premium upon the integrated concerns as compared with non-integrated enterprises.

By amendment of the 1939 legislature, a special category is established for those engaged in buying wheat, oats, and barley and selling the products at wholesale. A tax rate of .01 per cent applies to the gross proceeds derived from such sales.

¹ The statistical data relating to the state and local tax system of Washington have been drawn from the *Seventh Biennial Report*, Tax Commission, State of Washington. See Table No. 1 in particular.

² *Revenue Laws*, State of Washington, Sec. 290.

For those engaged in the extraction, processing, or selling of tangible commodities generally, the tax rates are uniform at .25 per cent, and apply to the value bases of the differentiated economic functions. The maximum rate of tax, .5 per cent, applies to businesses of a service and professional character.

(2) The *retail sales tax and the compensating tax*, an associated form of taxation, were added to the Washington tax system in 1935. The retail sales tax has been held (legally) to be an excise,³ although the language of the act is not expressly clear in this regard. It applies to the sale of tangible commodities, with specified exemptions, in movement to final consumption (retail sale) at the rate of 2 per cent of the turnover price. In order to force the incidence of the tax on consumers, any retailer who fails to shift or to collect the tax from buyers is guilty of a misdemeanor. Likewise, purchasers commit a misdemeanor should they refuse to pay the tax. Although this effort to force the incidence of the retail sales tax by legal means doubtless exercises a certain amount of suasion and establishes a code of shifting (legal) ethics, for what it may be worth, nevertheless in the absence of effective control over the base prices of commodities, it is not to be expected that the effort to move the burden of the tax on consumers is fully successful. Retailers, by drawing back the base prices of commodities by an amount equal to the tax, are able to invoice through to buyers a sum which allegedly represents the amount of the tax. Apparently, to a major extent, this form of sales taxation establishes burden situs with consumers who are parties to the taxed transactions. The retail sales tax is credited with revenue in the amount of \$11,210,000 for 1938.

The compensating tax, in statutory expression, is an excise tax for the privilege of using tangible personal property within Washington. This applies only to commodities purchased without the state which either have not been subject to a retail sales tax or have been taxed at less than 2 per cent. The compensating tax, therefore, applies to commodities imported at that rate which will equalize with the 2 per cent retail sales tax. In economic effect this form of taxation operates as a protective tariff in that it affords protection to Washington retailers in their dealings with residents of the state against the competition of retailers in other jurisdictions.⁴ In economic terms the compensating tax may be described as a supplemental form of retail sales taxation. For 1938 it is reported as producing \$668,000 of revenue, which means that not less than \$33,400,000 worth of commodities purchased outside the state were subject to this tax.

(3) *Selective sales and excise taxes*, with the exception, principally, of the excise tax on motor vehicle fuel (gasoline), the excise tax on the premiums of insurance companies, and the excise tax on inheritances, have been of recent adoption. That they have been developed on a very broad scale and now occupy an important place in the state revenue system is evident both in the number of these forms of taxation as well as the revenue to which they give rise annually.

³ *Morrow v. Henneford*, 182 Washington 625.

⁴ The compensating tax has been held non-violative of the Commerce Clause of the United States Constitution in *Silas Mason Company, Inc. v. Henneford*, 300 U. S. 577.

The *public utility tax*, enacted in 1935 as an excise, fixes the base of the tax as the "gross operating revenue" of the utility. Originally included in the business and occupation tax (1933), public utilities were exempted therefrom with the re-enactment of the tax in 1935 and were taxed under a special title (Title V) from 1935 on. The rates of the public utility tax range from .5 per cent to 3 per cent for the various classes of utilities distinguished by the act. Revenue from this form of tax for 1938 is reported in the amount of \$2,267,000.

The *liquor tax*, added to the state revenue system in 1935, is at the rate of 10 per cent upon the retail sales price of all alcoholic liquors sold by the State Liquor Control Board. This sales tax, by statutory mandate, is to be added to the price of the goods sold and thereby collected from the purchaser.

The Liquor Control Act of 1933, as amended by the Acts of 1935 and 1937, establishes an extensive schedule of license charges and taxes upon manufacturers of liquor, and producers and distributors of beer and wine. Revenue from the liquor tax for 1938 is in the sum of \$2,066,000.

The *fuel oil tax*, originally enacted in 1935, imposed an excise tax of one-quarter cent on each gallon of fuel and diesel oil sold or used by distributors within the state. For 1938 revenue in the amount of \$812,000 is reported for this tax.

The *cigarette tax* was enacted by the legislature in 1935 at a rate of one-twentieth of one cent per cigarette, except where the selling price of each cigarette exceeded one cent, in which case the rate was 10 per cent of the sales price. The 1939 legislature, however, increased the cigarette tax by 100 per cent. The new rates are one-tenth cent per cigarette, except where cigarettes retail for more than one cent each, in which event the rate is 20 per cent of the sales price. Revenue from the cigarette tax for 1938 is listed at \$1,070,000. With the drastic increase in rates, the yield of this tax should be much greater for 1939 and thereafter.

The *admissions tax*, which became a part of the state tax system in 1935, in effect is a selective sales tax of 5 per cent of the price paid to places of amusement. A higher rate applies where tickets are sold to places of amusement by other than the established offices and in excess of the established prices of such places of amusement, also under other specially defined conditions and places of amusement. The admissions tax is credited with revenue in the amount of \$791,000 for 1938.

The *conveyance tax*, regarded legally as an excise tax, became a feature of the revenue system of the state in 1935. It applies only to realty transfers as evidenced by deed or other instrument. The tax rate is one mill per \$500, or part thereof, of the consideration (\$.50 per \$500), exclusive of any lien on the realty not cancelled by the conveyance. The tax is of nominal importance from a revenue standpoint, having produced \$82,000 only in 1938.

The *automobile excise tax*, imposed originally in 1937, applies only to private motor vehicles used for the convenience or pleasure of the owner. Motor vehicle

trailers, vehicles for hire, motor trucks and buses, and the like, which carry a licensing classification different from private motor vehicles (for convenience or pleasure), are exempt from the tax. The tax is *in lieu* of all property taxes. The shifting of this form of tangible personalty from property to excise taxation has served to emasculate somewhat the property tax base, although it secures, apparently, a more equitable and complete distribution of the tax (on this form of personalty) among owners of this class of motor vehicles. Variation in county property tax assessments, greater possibilities of tax avoidance, and state revenue considerations appear to have been the principal reasons for the change in the taxation.

The excise tax rate is 1.5 per cent of the (full) fair market value of these vehicles. Provision is made for a minimum tax which is in the amount of \$1.00 per vehicle per year. Payment of the tax is at the time of annual registration. Revenue collections are listed in the sum of \$1,252,000 for 1938.

Other excise taxes which have been a part of the state revenue system *prior to 1933* are: (1) the *excise tax on motor vehicle fuel* at the rate of \$.05 per gallon, which is highly productive of revenue, \$15,340,000, in 1938. (2) The *excise tax on insurance premiums*, based on gross premiums less re-insurance and returned premiums at rates of 2.25 per cent for foreign companies, 1 per cent for domestic companies and foreign companies having 50 per cent or more of their assets in the form of government securities of the state of Washington or its political subdivisions, or in taxable property within the state, and 5 per cent of the annual underwriting profit of marine insurance companies. Revenue in the amount of \$1,400,000 in 1938 was raised by this tax. (3) The *excise tax on inheritances*, based on the privilege of receiving property by succession, establishes a classification and provides for graduation of rates both in regard to the relationship of the beneficiaries to the decedent, as well as the amount of wealth subject to transfer. Rates range from 1 per cent to 25 per cent. Revenue from the inheritance tax, including escheats, is reported in the amount of \$1,917,000 for 1938. (4) The *excise taxes on fish and fish handlers* provides for widely varying rates in accordance with the kind of fish taken, as well as the kind of fish processed and handled. Revenue from these excise taxes is in the amount of \$110,000 for 1938. (5) The *excise tax on express companies*, which is based upon gross receipts from intra-state business at the rate of 5 per cent. Only a nominal amount of revenue was obtained from this tax, with receipts for 1938 being \$18,000.

Of total state and local revenues⁵ reported by the Tax Commission in the amount of \$93,408,000 for 1938, the property, sales, and excise taxes discussed above account for \$85,727,000. The difference, \$7,681,000, is receipts from license charges and license taxes on horse racing and the use of pari-mutuel machines, on business corporations, on insurance agents, on motor vehicle registrations, motor

⁵ Excludes social security taxes, workmen's compensation assessments, Federal aid, public utility regulatory fees, rent, interest, hunting and fishing licenses, local licenses and excise taxes, and minor state sources. See Table No. 1, *Seventh Biennial Report, Washington Tax Commission*.

vehicle operators, and the like, and on liquor; in addition is the income in the form of State Liquor Board net profits. Motor vehicle registrations, and the like, producing \$3,115,000, combined with the net profits of the Liquor Board in the sum of \$3,150,000, are responsible for \$6,265,000 of the \$7,681,000.

B. DISTRIBUTION OF THE WASHINGTON TAX BURDEN

Highly significant are the changes which have occurred in the state and local tax system since 1933. The adoption of the business and occupation tax (multiple classified gross sales tax) by the legislature of 1933 initiated a broad expansion of the state tax system in the direction of sales and excise taxation. The legislature of 1935 added the retail sales tax and its companion measure, the compensating tax, with the extensive group of selective sales and excise taxes in addition, principally the liquor tax, the fuel oil tax, the cigarette tax, the admissions tax, and the conveyance tax. In combination with excise taxes previously in existence (prior to 1933) and subsequent legislation, the state of Washington currently finds itself with the broadest system, apparently, of sales and excise taxation of any of the forty-eight states.

A striking feature of the Washington sales and excise tax system, the excise tax on inheritances excepted, is the very evident maldistribution of the tax burden as it relates to the income of individuals. In the last analysis, all taxes are paid by persons out of income, regardless of whether the measure, object, or base of the tax or taxes is property, consumable commodities, gross income, or sales. To serve the interest of fairness and equality in tax burden distribution, individuals presumably should contribute in reasonable proportion to financial ability, which, in turn, seems to be best evidenced by income. Because sales and excise taxation in Washington has established tax emphasis upon certain categories of individual expenditures, not income, and with these expenditures relating largely to necessary items in living standards for low as well as high income groups, ability to pay taxes as measured by income is flagrantly disregarded. The distribution of personal expenditure for commodities and services in the sales and excise tax categories decreases relatively as income increases. Furthermore, it appears that this relative decrease becomes increasingly pronounced as individual incomes acquire substantial size. The lower income groups (poorer classes) spend proportionately a larger portion of their incomes upon necessary commodities included in sales and excise tax bases; the higher income groups (wealthier classes), on the other hand, spend proportionately a smaller part of their incomes for the taxed commodities and services. The smaller relative expenditure for taxed commodities finds reflection in proportionately greater savings. Taxation on the basis of expenditures, particularly when it concentrates largely on tangible goods which are necessities in living standards, is invariably highly regressive in burden distribution.

The widespread rediscovery of sales or turnover taxes by the American commonwealths, taxes of very ancient origin, occurred as a result of the fiscal pressure created by the current economic depression. Apparently the fiscal precept of

equity in the apportionment of the tax burden exercises little influence in the adjustments of tax systems in competition with administrative practicality and revenue productivity as exemplified by sales and excise taxation. Assiduous cultivation of the public, business men in particular, with propaganda favorable to sales taxation seems to have produced favorable, although uncritical, sentiment in support of this taxation which is repressive upon business and regressive in its incidence. The indiscriminating mind frequently visualizes the universality and uniformity of sales taxation as productive of equality in burden distribution. The revenue productiveness of sales taxation as an alleged outstanding virtue is not unique. Any form of taxation with a comparably broad base and an equally high rate should show equivalent fiscal results. The Washington tax system, with its extraordinary emphasis on sales and excise taxation, is deserving of critical attention, rather than blind rationalization, by those who feel its impact.

State sales and excise taxes, with the exception of excise taxes on insurance premiums and inheritances, produced \$40,680,000 of revenue in 1938. These taxes, which are responsible for 73 per cent of reported *state* revenues (for 1938), appear without exception to have distinctly regressive characteristics as individual forms of taxation. Collectively, these taxes operate to distribute a major portion of the aggregate state tax load among the public in a manner which makes the burden relatively lighter as the individual income becomes larger. In addition, maldistribution of the revenue burden as found in the major state license charges, license taxes, fees, etc., doubtless occurs; *e.g.*, motor vehicle registration, operators' licenses, motor vehicle title fees, business corporation licenses, liquor licenses, and the like. Receipts from these sources were in the amount of \$4,531,000,⁶ or 8 per cent of state revenues.

The inheritance tax (although of relatively nominal fiscal importance, \$1,917,000) is the only form of taxation with progressive rates in the state and local revenue system. The excise tax on insurance premiums, the state property tax levy, the net profits from the State Liquor Board, and the inheritance tax, collectively accounted for \$10,299,000, or 19 per cent of state revenues.

Although the fiscal importance to the state of the property tax is not great (7 per cent of revenues in 1938), this form of taxation constitutes the very basis of fiscal existence of the various local governments. The levies of local governments on property in 1938 were in the amount of \$37,798,000.

C. DISTRIBUTION OF THE PROPERTY TAX BURDEN

The property tax in Washington is basically a tax on realty. Intangible personalty, as stated previously, is exempt from the property tax. Tangible personalty in the form of private motor vehicles is exempt, likewise. In addition, a statutory exemption of tangible personalty in the form of household goods and personal effects is provided for the heads of families in the amount of \$300.⁷ Further, other forms of tangible personalty not exempt by statute appear, in no small de-

⁶ Includes revenue from the licensing of horse racing and pari-mutuel machines.

⁷ *Revenue Laws*, State of Washington, Sec. 111.

gree, to secure substantial exemption largely because of incomplete listing and hence failure to assess. Such tangible personalty as may be listed and assessed, nevertheless, appears to fare well in terms of relatively low assessment ratios as compared with realty.

Data are lacking as to that proportion of total property value in Washington which is listed, assessed, and levied on in the amount of \$41,630,000 (1938).⁸ In very large part that proportion of total property value which makes its appearance on the tax duplicate is in the form of realty. The direct holdings of realty by decedents, as revealed in probated estates, is 39.67 per cent of total property value (Table V-B). In the taxation of the property owned by natural persons, the majority of total property value, 57.04 per cent, in the form of intangible personalty, completely escapes; of tangible personalty, 3.29 per cent partially escapes property taxation; in consequence, the full burden of property taxation directed to natural persons has its impact upon a minor part of the total property value.

Although realty represented only 50.6 per cent of the total property passing through probate in Texas, it constituted 75.3 per cent of the total property assessed under the property tax.⁹ Tangible personalty was 3.5 per cent of total property value of probated estates, yet it represented 21.8 per cent of the value on the assessment rolls.¹⁰ Intangible personalty, on the other hand, was 45.9 per cent of total property value of probated estates, but comprised only 2.8 per cent of total assessed value of property.¹¹ Realty and tangible personalty, therefore, were in the proportion of 97.1 per cent of total property value subject to assessment.

H. U. Welch reports that, although realty comprises only 30.32 per cent of total property value in probated estates, it represents on the average of 74.21 per cent of the total assessed valuation of property in Multnomah County, Oregon, for the period 1926 to 1930 (period of survey); tangible personalty was 2.03 per cent of total value of probated estates, yet was in the proportion of 8.94 per cent of total assessed property value; while intangible personalty, 67.65 per cent of total estate value, was 4.15 per cent of the total assessed value of property.¹² Public service corporation property, mixed realty and personalty, represented the remainder of the total property assessment in the proportion of 12.70 per cent.¹³

G. S. Klemmedson, in discussing the situation in Colorado, states that the "ownership of property such as farm and ranch lands, livestock, city homes, business property, merchandise and manufacturing property receives 27 percent of the income of the entire population of Colorado, yet this portion must bear 94

⁸ Of the property which is listed and assessed by the County Assessors and equalized by the County Boards, \$815,251,441 in 1938, 84 per cent, or \$684,125,407, is realty, and 16 per cent, or \$131,126,034, is tangible personalty. *Seventh Biennial Report, Washington Tax Commission, Table No. 2, p. 41.*

⁹ Gabbard, L. P., *op. cit.*, p. 10. Based on all estates passing through probate and on total property assessments for the forty-seven selected counties included in the survey.

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² *Tax Rate Sheet, op. cit.*, p. 2.

¹³ *Ibid.*

percent of the direct state and local tax burden."¹⁴ He adds that income from intangible property and "wages, salaries, commissions and fees of all professional people none of which pays any substantial amount of taxes for state, county, school and local purposes receives 73 percent of the total income."¹⁵ The recipients of the 73 per cent of the total income, therefore, contribute only to the amount of 6 per cent of direct state and local taxes.

H. S. Hicks, following his survey of probated estates and property assessment rolls for Winnebago, Ogle, and Boone counties in Illinois, observes that "chattel property constitutes 3.6% of the total wealth as shown by the probate records and that it bears 17.5% of the tax load. Real Estate, shown by the probate records to be 44.8% of the wealth of the three counties, is loaded with 75.2% of the tax burden; the intangible wealth, which in amount was more than one-half [51.6 per cent] of the entire volume of property passing through probate . . . escaped with 7.3% of the taxes collected in the three counties for the year 1929."¹⁶

In Washington property taxation by statute is limited to realty and tangible personalty. However, the results of property taxation in other states, as illustrated above, indicate that realty is that form of property which, although less than half of total property value, bears in very large proportion the impact of property taxation (approximately 75 per cent). Furthermore, it seems to make little difference relatively whether intangible personalty is exempted from the property tax by statute (in part or in whole) or not. Though listing on the tax duplicate may be required, only a nominal quantity of such property makes its appearance and is subject to taxation. Evidence appears to be overwhelming that the property tax, even at low classified rates, is a very unsatisfactory tax method of reaching intangible personalty.

With the realization that not only in Washington but elsewhere the property tax is essentially a tax on realty, the question arises as to the relative distribution of its burden among natural persons. It is not to be assumed that the uniformity of property tax rates is a conclusive indication of proportionality in burden distribution. Instead, the *larger relative holdings of realty* (in proportion to total wealth), and the seemingly universal and invariable *tendency to under-assess relatively the larger as compared with the smaller units of real property*, among other factors, make the property tax significantly regressive.

Table XVI-B shows the relative proportions of realty in accordance with estate size for Washington. Estates *under \$10,000* had *57.97 per cent of total wealth in realty*; estates *\$10,000 to \$25,000*, *48.99 per cent realty*; estates *\$25,000 to \$50,000*, *42 per cent realty*; estates *\$50,000 to \$100,000*, *36.11 per cent realty*; and estates *\$100,000 and above*, *21.30 per cent realty*. A sharp and continuous decrease in the relative proportion of real property to total estate value is seen. In consequence, individuals of small wealth, under this circumstance alone, would pay relatively more in property taxes than persons of greater wealth. The burden

¹⁴ *State and Local Tax Revision in Colorado, op. cit.*, p. 11.

¹⁵ *Ibid.*

¹⁶ "What Part of Our Wealth is Real Estate?" *op. cit.*, pp. 38-39.

of property taxation, as found in the levy on realty, is distributed unequally and is malproportioned in relation to total wealth. The measure of regressivity is found in the marked decreasing proportions of realty to total estate value as estates increase in size.

With tangible personalty distributed in a comparable way—the proportion decreasing rapidly as estates increase in size—regressivity characterizes the burden apportionment of the property tax as it applies to this form of property (see Table XVI-B).

It will also be recalled that, as between rural and urban estates, the larger proportions of realty in rural estates, 53.19 per cent, as compared with urban estates, 38.48 per cent, in Washington, suggest a substantially greater relative burden of property taxation visited upon rural residents than upon urban residents (see Table XX).

The pronounced tendency to under-assess relatively the larger as contrasted with the smaller units of property has long been recognized. As the size of property units corresponds in general, apparently, with the wealth of the owner, persons of greater wealth with larger units of property find themselves subject to favorable property tax discrimination because of lower relative ratios of assessment. On the other hand, individuals of little wealth, holding small units of property assessed at relatively higher ratios, are treated to unfavorable discrimination. The inverse variation of assessment ratios with the size of property units occasions substantial regressivity in the distribution of the property tax burden.

Explanations of this situation are the greater ease of examining and valuing small as compared with large properties; the less frequent complaint of the small property owner following unjust assessment treatment because of ignorance, fear, cost of adequate legal representation, lack of confidence in tax administrative officials, the small absolute sum representing the tax discrimination, and the like; the political and economic influence of persons of large wealth not infrequently used to secure favorable property assessments; the use of "rules-of-thumb" by untrained and incompetent assessment staffs; elective rather than appointive assessment officials who serve at low compensation and for a short term; and inadequate funds for adequate performance of the assessment task. Regardless of the causes, serious inequalities in assessments continue to exist not only in Washington but throughout the country as well.

In their study of property assessments in mid-western states, R. W. Nelson and G. W. Mitchell¹⁷ found that in forty-one Iowa counties "an unmistakable tendency toward regression"¹⁸ in the assessment of both urban and rural properties was present; further that "no one of the forty-one counties fails to display regressivity."¹⁹ While "the tabulations of assessment ratios show persistent and uninterrupted declines . . . considerable variation among counties as to the ex-

¹⁷ *Assessment of Real Estate in Iowa and Other Mid-Western States*, Iowa Studies in Business, No. 10, January, 1931.

¹⁸ *Ibid.*, p. 51.

¹⁹ *Ibid.*

tent and rapidity of such declines"²⁰ was observed.²¹ The evidence examined²² in Wisconsin indicated that assessments were much more satisfactory, although by no means perfect. A relatively high assessment ratio, relatively small dispersion among individual assessments (particularly as to rural property), and comparatively little regressivity in the majority of districts were found.²³ Assessments in Minnesota reveal definite regressivity²⁴ for property in each of the six counties surveyed.²⁵ In Nebraska the assessment of property was found to be very unsatisfactory.²⁶ The assessment level "of both rural and urban property is very low as a whole, and varies widely as among counties and cities. The lack of uniformity in the assessment of rural property is greater in Nebraska than in any other state investigated. Nebraska urban property is assessed with like inequality. . . . Persistent regressivity in the assessment of rural property is found to a greater extent in Nebraska than in any other state."²⁷ In Indiana "considerable regressivity in assessment"²⁸ was found, as well as great inequality in the assessment of urban property.²⁹

W. H. Dreesen, in an extensive investigation of the ratios of assessed value to sales value of real property in Oregon,³⁰ concludes that, for rural real estate, "there is a strong tendency to assess more highly the properties in the lower value groups than in the higher value groups."³¹ For the Class A counties (Curry, Grant, Harney, Jefferson, and Lake) assessment regression in *rural realty* was found to be "particularly strong,"³² with the assessment ratio of the first value group (properties below \$500) at 105.56 per cent and with decreases in the ratios of assessment for the larger value groups continuing into the last value group (Group VIII, properties \$3,500 and above) which had an assessment ratio of 38.89 per cent.³³ Assessments in Class B counties³⁴ did not display quite as pronounced a tendency to regression, the assessment ratios declining from 71.72 per cent for Group I (properties below \$1,000) to 41.65 per cent for Group IX (prop-

²⁰ Nelson, R. W., and Mitchell, G. W., *op. cit.*, p. 51.

²¹ The Iowa survey included a sampling of 10,557 separate parcels of Iowa realty. *Ibid.*, p. 34.

²² Based upon a limited sampling of 1,256 properties for the year 1927. *Ibid.*, p. 68.

²³ Nelson, R. W. and Mitchell, G. W., *op. cit.*, p. 81. Definite regressivity was observed in Waushara and Rock counties; to a lesser degree regressivity was indicated for Columbia and Dane counties; the remaining counties showed no consistent tendency in this direction.

²⁴ A sampling of 1,341 properties of which 702 properties had complete data (for 1926-1927) as to sales prices and assessed valuation. *Ibid.*, p. 89.

²⁵ *Ibid.*, pp. 104-105. See Tables XXV, XXVI, XXVII, and XXVIII.

²⁶ *Ibid.*, p. 120. Based on a sampling of 2,363 parcels of property.

²⁷ *Ibid.*

²⁸ *Ibid.*, p. 132. Based upon a limited sampling of 759 properties.

²⁹ *Ibid.*

³⁰ *A Study in the Ratios of Assessed Values to Sales Values of Real Property in Oregon*, Agricultural Experiment Station, Oregon State Agricultural College, Bulletin No. 233, June, 1928.

³¹ *Ibid.*, p. 13.

³² *Ibid.*

³³ *Ibid.*, Table VII, p. 14.

³⁴ Baker, Clackamas, Clatsop, Columbia, Coos, Crook, Deschutes, Douglas, Gilliam, Hood River, Jackson, Josephine, Klamath, Lane, Lincoln, Linn, Malheur, Marion, Morrow, Multnomah, Polk, Sherman, Tillamook, Union, Wallowa, Wasco, Washington, Wheeler, and Yamhill.

erties \$14,000 and above).³⁵ Assessments in Class C counties (Benton and Umatilla) expressed regression by ranging from 64.14 per cent for Group I (properties below \$1,500) to 38.80 per cent for Group IX (properties \$16,000 and above).³⁶

In the examination of *urban* real property there was disclosed a similar "strong tendency to overassess the properties in the lower value group . . . as in the case of rural property."³⁷ *Urban property* in Class A counties³⁸ was subject to a high degree of assessment regression, with an assessment ratio for Group I (properties below \$500) of 76.11 per cent, continually decreasing to Group VIII (properties \$3,500 and above) which had a ratio of 38.43 per cent.³⁹ Somewhat less regression in assessments was present for Class B counties.⁴⁰ For Group I (properties below \$700) the assessment ratio was 72.93 per cent, with regression indicated by declining ratios to Group VIII (properties \$4,900 and above) with a ratio 45.06 per cent.⁴¹ Dreesen concludes that the "tendency to overassess properties of low value is general for all classes of cities"⁴² in Oregon.⁴³

Whitney Coombs, Senior Agricultural Economist, United States Department of Agriculture, in discussing the tendency of assessments to vary inversely with the value of farm property, states that a "type of inequality . . . which almost every study . . . has brought to light, is a discrimination in relative assessment between properties of low sales value and those of high value"⁴⁴ for "as the sales value of property increased, the percentage of assessed valuation to sales value decreased."⁴⁵

We may conclude that the Washington property tax, fundamentally a tax on realty, an important part of the state and local tax system, occasions a serious maldistribution of burden. The tax is characterized by sharp regressivity, the principal causes of which are (1) the inverse relationship between the value quantity of realty and total wealth, and (2) the inverse variation between the assessed value and sales value of parcels of real estate.

³⁵ Dreesen, W. H., *op. cit.*, Table VII, p. 14.

³⁶ *Ibid.*

³⁷ *Ibid.*, p. 24.

³⁸ Baker, Clackamas, Columbia, Coos, Crook, Curry, Deschutes, Douglas, Gilliam, Grant, Harney, Hood River, Jackson, Jefferson, Josephine, Lake, Lincoln, Linn, Malheur, Morrow, Polk, Sherman, Tillamook, Umatilla, Wallowa, Wasco, Washington, Wheeler, and Yamhill.

³⁹ Dreesen, W. H., *op. cit.*, Table XII, pp. 22 and 23.

⁴⁰ Benton, Clatsop, Klamath, Lane, Marion, Multnomah, and Union.

⁴¹ Dreesen, W. H., *op. cit.*, Table XII, pp. 22 and 23.

⁴² *Ibid.*, p. 24.

⁴³ The study by W. H. Dreesen of the ratios of assessed value to sales value for rural and urban realty in Oregon was based on a sampling of 16,806 rural properties and 23,327 city properties, or a total of 40,133 properties for which both sales prices and assessed values were secured. These data were for the years 1921 to 1926 inclusive.

⁴⁴ *Taxation of Farm Property*, United States Department of Agriculture, Technical Bulletin No. 172, February, 1930, p. 48.

⁴⁵ *Ibid.*

IV. CONCLUSION

For a tax system to operate without excessive public dissatisfaction it must reflect the collective judgment of fairness and equality in the distribution of the tax burden among the individual members of the public. The character and scope of governmental functioning in a democracy are determined by the public. The collective undertakings, through the medium of government, incur heavy costs which must be covered. In the modern economy the method of meeting these costs is through the utilization of a tax system, which is simply a mechanical device to transfer the necessary purchasing power from the members of the public to government. In itself the tax system is a composite of many special, highly individualized forms of taxation. The relative importance of each of these forms, in a fiscal sense, is measured by the proportion of the total tax takings to which each gives rise. A tax system, therefore, to be evaluated in its entirety, must be viewed through the several component parts of the whole. In Chapter III the principal forms of taxation in Washington, state and local, were distinguished, their relative fiscal importance indicated, and the manner in which each distributed its financial burden outlined.

From the point of view of the public the "problem" of taxation, in a general sense, is the proportion of one's income, in comparison with others, which each citizen pays to the public treasury. To operate with a minimum of friction and with the fullest measure of satisfaction, the majority of citizens must feel that their individual contributions are in reasonable proportion, one to the other. Judgments as to the reasonableness of relative contributions by citizens are formulations based upon their standards of justice and equity.

The understanding of the public in regard to fairness and equality in taxation, and by which the reasonableness of tax burdens is judged, apparently has been a standard representative of a confused mixture of "benefit" and "ability-to-pay." "Benefit" is interpreted as the flow of utility individually derivable from the functions performed by government. It may be visualized with respect to a particular governmental service, or services in general. In the application of this criterion, the presumption is that a citizen properly should contribute in an amount commensurate with the cost of that service, or those services, as proportioned to the direct and measurable benefit to himself.¹ The limitations upon "benefit" as a useful and appropriate test of tax burden apportionment are so serious as to render it of little practical importance. The benefits of governmental service (a particular service, or services in general) are both direct and indirect, and, in any but an artificially narrow sense, have such broad and far-reaching implications as to

¹ The benefit theory of taxation is wholly inadequate because it runs counter to the essence of the tax obligation in the modern economy. Taxes are compulsory payments, collected without reference to *individual benefit*, to support the general functions of government which are to serve the public, as distinguished from the private, advantage.

be incapable of measurement. In addition, social and economic considerations prevent any extensive use of the benefit basis, even when given a direct and narrow interpretation. Paupers, for example, who owe their very physical and economic existence to government, obviously are in no position to pay taxes proportioned to benefit.

The phrase "ability-to-pay" has various connotations. To citizens generally it appears to imply progressive taxation, and finds interpretation in some concept of sacrifice, either individual or group.² Although the sacrifice theories offer no adequate basis for graduated taxation and rest not "on the broad realities of the economic system"³ but rather on "hedonism in reverse,"⁴ adequate practical grounds for progressive taxation need not necessarily be lacking as found in the economic effects of alternative tax possibilities and the social consequences relating thereto. A recent tendency, which seems to be increasingly manifest on the part of the public, is to discard the overworked shibboleths of benefit and ability-to-pay as tests of equity in burden distribution and to think more in terms of realities as found in the economic and social results of alternative taxes measured in the light of the maximum advantage, economic and social, to society. Agreement with this approach is indicated by Professor E. D. Fagan who suggests that:

"A strong case can be made for defining equitable taxation as taxation which will increase to the maximum the objective criteria of welfare, *i.e.*, the basic economic, political, and social conditions under which there would be the optimum opportunity for the fullest development of the intellectual, moral, and physical capacities of every member of the state.

Equity in taxation when thus defined can be achieved only by the use of judicious discrimination and regulation. Discrimination and regulation are not undesirable in themselves. On the contrary, it is inconceivable that equitable taxation, whether defined as taxation according to ability-to-pay, benefit received, equal or minimum sacrifice, could be attained without deliberate and wise discriminations as regards tax sources, rates, and exemptions."⁵

Any system of state and local taxation, such as that in Washington, which permits citizens to avoid all direct taxation by investment of assets in intangible personalty, does not appear to distribute the tax burden on *any* equitable basis. This exemption from direct taxation increases as the total of wealth increases in amount (see Table XIII-B). A few of the larger estates selected from the probate files of King County (1935) illustrate the extent to which exemption from direct taxes has been enjoyed.

² For example, the *equal, proportional, equimarginal, and minimum sacrifice* theories. The equal, proportional, and equimarginal sacrifice theories are individualistic in implication; the minimum sacrifice theory is a group theory of taxation. For excellent discussions of these theories see Fagan, E. D., "Recent and Contemporary Theories of Progressive Taxation," *Journal of Political Economy*, Vol. XLVI, No. 4, August, 1938, pp. 457-498; Kendrick, M. S., "The Ability-to-Pay Theory of Taxation," *American Economic Review*, Vol. XXIX, March, 1939, pp. 92-101.

³ Kendrick, M. S., *op. cit.*, p. 101.

⁴ *Ibid.*

⁵ Fagan, E. D., "Taxation for Non-Fiscal Purposes," *Proceedings*, Pacific Coast Economic Association, 1938, p. 16.

Estate Number 62738, valued at \$239,051, contained no realty, and only \$340 of tangible personalty, but held \$238,711 of intangible personalty. Direct taxes in Washington in support of state and local government apply to the \$340 of tangible personalty only, following a deduction of the \$300 householder exemption if the personalty is in the form of household goods or personal effects.

Estate Number 62020, valued at \$481,938, contained \$11,500 of realty, \$4,905 of tangible personalty, and \$465,533 of intangible personalty. Any direct tax payment by the owner of this estate appears *most* nominal in comparison with total wealth.

Estate Number 63229, valued at \$739,758, contained \$31,640 of realty, \$1,850 of tangible personalty, and \$706,268 of intangible personalty. A direct tax contribution based on the realty and tangible personalty hardly seems to be adequate for the owner of this estate in comparison with its total value.

Estate Number 62356, valued at \$219,228, held \$18,900 of realty, \$780 of tangible personalty, and \$199,548 of intangible personalty. A relatively nominal direct tax payment to the state and local treasuries was made by the owner of this estate.

Estate Number 61876, valued at \$362,229, had \$46,500 of realty, \$1,910 of tangible personalty, and \$314,819 of intangible personalty. Comparatively small direct fiscal support to meet the costs of state and local government was forthcoming from the owner of this estate.

Estate Number 61434, valued at \$256,179, had \$11,000 of realty, \$1,941 of tangible personalty, and \$243,238 of intangible personalty. Reported direct taxes for 1934 to the state and local government were in the sum of \$440.

Estate Number 60877 was valued at \$1,509,558, of which realty was in the amount of \$235,730, tangible personalty, \$3,010, and intangible personalty, \$1,270,818. The very large proportion of intangible personalty in this estate means extensive exemption from state and local direct taxes.

Estate Number 63312, valued at \$237,734, contained \$16,000 of realty, \$3,050 of tangible personalty, and \$218,684 of intangible personalty. Extensive freedom from state and local direct taxes is an advantage granted, under the tax system, to the owner of this estate.

Although illustrations similar to those above may be greatly multiplied, it hardly seems to be necessary to press further the emphasis on existing gross inequalities which arise in the distribution of the tax load among citizens under the Washington tax system. Clearly, correction of the grave injustices in taxation should not be postponed long.

It is important to note that efforts to correct, at least partially, one of the major inequalities, namely the exemption of intangible personalty, have been attempted either by the public or the legislature on three different occasions since 1930 through the enactment of a graduated personal net income tax. These efforts proved unavailing, with the net income tax of 1931 subject to gubernatorial veto and the laws of 1933 and of 1935 declared unconstitutional by the State Supreme

Court.⁶ Article VII, Section 1, of the state constitution, provides that the "word 'property' as used herein shall mean and include everything, whether tangible or intangible, subject to ownership," also, that all "taxes shall be uniform upon the same class of property." In *Culliton v. Chase* the Washington Supreme Court held that *income is property* within the meaning of the constitution, and, therefore, a graduated net income tax is *legally* a property tax; and that the rate graduation feature is violative of uniformity required of all property taxes under the uniformity clause. An effort to remove this constitutional bar to graduated personal net income taxation by constitutional amendment failed to secure adequate public support.⁷

Although intangible personalty may be taxed as property under the property tax (at the same rates applicable to realty and tangible personalty), or classified separately and taxed at a low flat rate, experience elsewhere suggests the fiscal futility of reaching intangibles adequately in these ways.⁸ A state property tax on intangibles, measured by the income therefrom at some uniform rate, apparently, would meet constitutional requirements, but, in the light of the drastic limitation (tax rate) on the power of the state to levy property taxes (2 mills), revenue probably would be relatively nominal.

In property taxation the question of the treatment to be accorded representative intangibles arises. From a realistic point of view the problem is largely academic because representative intangibles, as well as non-representative intangibles, may be reached only in nominal amount through property taxation. To tax representative intangibles, rights existing in, or based upon, specific realty and tangible personalty, in addition to the full taxation of tangible property, is to superimpose "one tax base upon another, of equities upon things."⁹ Serious inequalities in property taxation arise in consequence. However, legislative bodies, apparently, have not been particularly concerned over this situation because the various states require the taxation of tangible property, generally, except property specifically exempt, without provision for deduction of debts. Representative intangibles, to a greater or lesser extent, including also certain categories of non-representative intangibles, at the same time are legally taxable, but with singular ineffectiveness. Widespread multiple property taxation thus exists statutorily.

Substantial variation of taxing methods in reaching intangibles characterizes the tax systems of the various states. In the great majority of states intangibles are taxable either under a general property tax, or under a classified low rate property tax (as property); in addition, the income from intangibles is taxable

⁶ Chapter 5, Laws of 1933, was declared unconstitutional in the consolidated case of *Culliton v. Chase and McKales, Inc., v. Chase*, 174 Washington 363. Chapter 178, Laws of 1935, was declared invalid in *Jensen v. Henneford*, 185 Washington 209.

⁷ Senate Joint Resolution No. 5 (General election, 1938).

⁸ Jensen, J. P., *Property Taxation in the United States* (Chicago: The University of Chicago Press, 1931), VII. See also Utah Tax Revision Commission, *Report*, 1929, pp. 20-23; Lutz, H. L., *The Georgia System of Revenue*, 1930, pp. 44-49; Leland, S. E., *The Taxation of Intangibles in Kentucky*, Bureau of Business Research, College of Commerce, University of Kentucky, Vol. 1, No. 1, June, 1929.

⁹ Jensen, *op. cit.*, p. 114.

under net income taxation. Washington has the unenviable fiscal distinction, the only state of the forty-eight, of exempting intangible personalty from any form of direct taxation.¹⁰

The more important inferences and conclusions which may be reached on the basis of the study are:

1. The state and local tax system of Washington is steeply regressive, with burden distribution varying inversely with wealth and income.

2. The evidence from the sampling of 7,992 probated estates indicates that 57.04 per cent of total property in the ownership of natural persons, and the income derived therefrom, are exempt from direct taxation by the state and local governments.

3. Washington, apparently, has the most extensive system of sales and excise taxation of any of the forty-eight states.

4. The property tax, essentially a tax on realty, has decreased greatly in fiscal importance, both relatively and absolutely. In large measure this reduction in the use of the property tax as a revenue source has been occasioned by the drastic tax rate limitation of 1932 and its subsequent re-enactments in even more drastic form.

5. The broad expansion of the regressive Washington sales and excise tax system developed concomitantly, 1933 and thereafter, with the reduction in the use of the property tax and expanding state functions.¹¹

6. Property taxation in Washington displays strong regressive tendencies on the basis principally of (a) the proportion of realty held by individuals varying

¹⁰ Appropriate to current Washington tax problems are the observations of the Kansas Tax Code Commission to the effect that:

"... to realize a reasonable contribution in taxes from intangible wealth is one of the problems involved in making a good tax system related to present-day conditions of life. Unless a remedy can be found for the escape of taxable wealth and of persons able to pay who are not now brought into the tax scheme, increasing costs of government will become a burden upon present taxpayers as unbearable as it is unjust.

"We like to think of ourselves as a progressive people, and we desire and are able to afford the advantages and benefits of a progressive state. Public improvements will go on. . . . There is no lack of wealth in this state to supply all the facilities of community life. It is our tax system that fails to provide properly for new needs. What is desired is greater equity in the distribution of the costs among all the people benefited. We are not looking for lower costs of government. They will increase. What we look forward to is tax laws more in accord with the present economic order, and tax administration that will carry out these laws in spirit and letter."

Report, 1929, pp. 12-13.

¹¹ Advocates of drastic reduction of real estate taxes in Washington at times have urged that deficiencies in state revenue occasioned thereby may properly and equitably be met by use of sales taxation. An excerpt from an address by Professor R. M. Haig, of Columbia University, before the National Municipal League, September 21, 1932, is germane to this issue. He states that any "politician who has the interest of the small home owner and rent payer at heart cannot sincerely and consistently urge the substitution of a general sales tax for real estate taxes. . . . To propose substitution of a general sales tax for taxes on real estate as a measure of relief for the small man is an insult to intelligence and an affront to common sense."

inversely with total estate value (total) property of all forms, and (b) the inverse variation between the assessed value and sales value of parcels of real estate.

7. Exemption from direct state and local taxation is available to those who invest their assets in intangible personalty instead of tangible property. The available evidence indicates that numerous persons of substantial wealth and income make comparatively nominal direct tax payments in support of state and local government.

8. The full burden of property taxation, directed to natural persons, falls upon 42.96 per cent of total property.

9. The taxation of intangibles, whether representative or non-representative, is highly ineffectual under both the general property tax and the classified property tax. The most effective method of taxing intangible personalty yet devised is on the basis of income through the medium of a net income tax.

APPENDIX

CLASSIFICATION OF PROPERTY SHOWN UPON INVENTORIES OF ESTATES

(Taken from Inventories filed with Clerk of the Superior Court)

County-----

Year-----

Docket Number	ATTORNEY	NAME OF DECEDENT	OCCUPATION	Age	Male	Female	Rural	Urban	REAL ESTATE		TANGIBLE PERSONALTY		INTANGIBLE PERSONALTY					
									Land	Improve- ments	Household Goods and Pers. Effects	Other	GOVERNMENTAL SECURITIES			CORPORATE SECURITIES		Other Intangibles
													U.S.	State and Local	Foreign	Bonds	Stocks	

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