

**THE FISCAL PROBLEM IN NEW YORK
STATE**

**STUDIES IN TAXATION AND
PUBLIC FINANCE**

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THE FISCAL PROBLEM IN NEW YORK STATE



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FOREWORD

QUESTIONS relating to business taxation are coming to the fore in the minds of business men and leaders of public opinion throughout this country. State legislatures are turning more and more to business enterprise as a source of tax revenue. The consequent growth of business tax burdens has reached a crucial point in some states, and in many others it has become a matter of serious concern. This is particularly true in New York State and this fact, together with the leading position of the state in the national economic and political life, makes a study of the fiscal situation in New York of special and timely interest.

This volume on "The Fiscal Problem in New York State" is one of a series of six studies by the National Industrial Conference Board made for the New York State Industrial Survey Commission at the request of Associated Industries of New York State, Inc. The main emphasis in the present study is placed on the problem of business taxation, although in order to place this problem in its proper perspective it is necessary to take into consideration issues of public expenditures, public borrowing and the tax system of the state. Wherever adequate data could be obtained, the situation in New York State was compared with that in other states.

The data used in this volume, unless otherwise indicated, are official in character and were secured from published or unpublished records of state and local public officials. The National Industrial Conference Board acknowledges with pleasure its obligation to these public officials and to all others who cooperated with it in furnishing the material required. In particular, the Board desires to express its appreciation to the New York State Tax Commission, and especially to Commissioner Mark Graves, to the New York State Special Joint Committee on Taxation and Retrenchment, to the Advisory Tax Committee of Associated Industries of New York State, Inc., and to Prentice Hall, Inc., for special information and advice. The Board is also in-

debted to its own Advisory Committee on Taxation and Public Finance, whose close cooperation has been invaluable, viz.:

Addison L. Green, Chairman, Farr Alpaca Company, Holyoke, Mass., *Committee Chairman.*

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This volume is the result of an investigation conducted by Mr. William J. Shultz and assistants, of the Conference

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Board's Research Staff, under the supervision of the Staff Economic Council.

In the preparation of its studies the National Industrial Conference Board avails itself of the experience and judgment of the business executives who compose its membership and of recognized authorities in special fields, in addition to the scientific knowledge and equipment of its Research Staff. The publications of the Board thus finally represent the result of scientific investigation and broad business experience, and the conclusions expressed therein are those of the Conference Board as a body.

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APPENDICES

APPENDIX A

METHODOLOGY

IN many cases the preceding text and tabular materials represent a summation of lengthy and often complicated computations. As a matter of record and to provide a check upon its calculations, the National Industrial Conference Board believes that the principles and methods of these computations should be fully stated.

SOURCES OF DATA

Data on New York state and local expenditures, borrowings, indebtedness and tax collections have been drawn almost exclusively from the reports of the State Tax Commission and of the State Comptroller. The United States Bureau of the Census has made full calculations of the tax collections and expenditures of the state governments and of cities over 30,000. In Tables 4, 7, 8, 21 and 22 these figures of the United States Bureau of the Census were used in preference to those of the State Tax Commission or the State Comptroller because of their more detailed classification. For its calculations on the relative tax burdens on New York individuals and corporations, the Conference Board has relied upon data supplied by the United States Bureau of Internal Revenue. Special materials on the operation and effects of particular taxes have been drawn from the reports of the State Tax Commission and from the reports of the Special Joint Committee on Taxation and Retrenchment.

ANNUAL ACCOUNTING PERIOD

The New York State government has a fiscal year running from July 1st to June 30th. With twelve exceptions the counties have accounting periods running from November 1st to October 31st. With thirteen exceptions the fiscal years of the cities coincide with the calendar year. With nineteen exceptions the town fiscal years also coincide with the calendar year. Four hundred and fifty-seven villages have fiscal years running from March 1st to February 28th or 29th, but the fiscal years of the other fifty-one villages overlap the entire calendar. The accounting periods of the ten thousand school districts run from August 1st to July 31st.

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In the present study the accounting period used is that of the fiscal year ending in a given calendar year. There is thus an overlapping of periods in all tables dealing with state and local expenditures and tax collections. Since this overlapping is uniform and continuous, however, it does not invalidate the purposes of the tables.

CALCULATION OF PUBLIC EXPENDITURES

As indicated above, the data on the expenditures of the state government in Table 4, and on the expenditures of New York City and of other cities with populations over 30,000 in Tables 7 and 8 were drawn from the "Financial Statistics" series of the United States Bureau of the Census. The expenditures of the counties, towns and villages in Tables 5, 6 and 9, were drawn directly from the annual reports of the State Comptroller. The expenditures of the school districts were taken from the annual reports of the New York Department of Education. In none of these tables was any account taken of the overlapping of the expenditures of the various governmental agencies through the operation of state aid and of special county payments to towns. In Tables 2 and 3, however, it was necessary to eliminate this duplication of items unless an exaggerated picture of New York state and local expenditures were to be presented. In the tables dealing with combined state and local expenditures, the figures for the expenditures of the state government are the same as those in Table 4. State aid to the counties for highway construction was deducted from the county figure. The item "Miscellaneous expenditures" which appears in Table 5 on county expenditures was eliminated in the tables for combined expenditures since this item consists largely of county funds disbursed to the towns and sinking fund taxes; it would have been preferable to have deducted the county aid to towns from the figures for town expenditures but the amount could not be ascertained. State highway aid to the towns was deducted from the total of town expenditures for the combined tables. The figures for New York City expenditures in the combined tables differ from those of Table 7 only in that state aid to New York City for education is deducted.

The expenditures of the other fifty-nine New York cities in the combined tables were calculated as follows: The expenditures for Buffalo and Rochester were taken from the "Financial Statistics of Cities" series of the United States Bureau of the Census. The figures for the other fifty-seven cities are those given by the State Comptroller. The "Financial Statistics of Cities" series

includes interest on public utilities indebtedness with other interest. This item for Rochester and Buffalo was obtained by correspondence from the comptrollers of these cities; it was deducted from the interest figure as given in the "Financial Statistics of Cities," and added to the figure for the maintenance of public utilities. The State Comptroller in his report on city finances includes capital expenditure for public utilities with other capital expenditures. The item of capital expenditures for public utilities for the cities over 30,000 was obtained from the "Financial Statistics of Cities," series. In the case of smaller cities it was estimated by using the ratio of public utilities capital expenditures to public utilities maintenance expenditures for cities between 30,000 and 50,000 as shown in the "Financial Statistics of Cities." The item of capital expenditures for public utilities for all cities thus obtained was subtracted from capital expenditures as shown by the State Comptroller and added to his figure for public utility expenditures. State aid for education was deducted from the figures for school expenditures for all cities.

The figures for village expenditures in the combined table differ from those in Table 9 in that capital expenditures for public utilities (estimated as equivalent to the sale of village public utility bonds) was deducted from the item of capital expenditures and added to the item of public utility expenditures. School district expenditures in the combined table differ from those given in Table 10 in that state aid has been deducted.

MEASURES OF EXPENDITURES AND TAX BURDENS

The index of price changes, used in Tables 1 and 15 to relate expenditures and tax collections in actual dollars to those in "1917" dollars is the "General Price Level" index of Mr. Carl Snyder. This was chosen in preference to the wholesale price index of the United States Bureau of Labor because the items entering into the Snyder index more closely approximate the items of public expenditure than do those of the wholesale price index. Note should be made here of the analysis of the effect of price changes on the expenditures of the state government by Clarence Heer in his study, "The Post War Expansion of State Expenditures." His index of price changes could not be applied to the figure for combined state and local expenditures in New York, however, because of the differences in the functional distribution of state and local expenditures.

The estimates of New York's wealth from 1917 to 1926 are based on estimates of the national wealth during this period; these latter

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estimates in turn were derived by interpolation and projection of the United States Census Bureau's estimates of national wealth for 1912 and 1922 as modified by the wholesale price index number of the United States Bureau of Labor. The estimates for New York State from 1917 to 1921 were obtained by applying the estimated percentages for the state to the national totals, the percentages being estimated by arithmetic interpolation between the proportions in the census estimates of 1912 and 1922. The estimates for years following 1922 were found by adding to the Census estimate of 1922 a percentage of the increase in the national total, based upon the share of New York in the increase between 1912 and 1922.

The income figures for New York State were also computed on the basis of estimated percentages of the national totals. For 1926, a year of pronounced business activity, the percentage given for 1919, a similar year, by Mr. Leven in Report No. 7, "Income in the Various States," National Bureau of Economic Research, was used. For years 1919, 1920 and 1921, Mr. Leven's percentages for New York were applied to the Conference Board's estimates of national income for those years. A study of Mr. Leven's percentages for those years in connection with data from the census of manufactures indicated that in years of unusually great business activity the relative share of New York in the national income declines, and vice versa. A measure of this inverse relationship was found by comparing the increases in the percentages for New York during 1919-20 and 1920-21 shown by Mr. Leven with the deviations of the national income expressed in "1913" dollars from a theoretical standard representing high activity, derived by arithmetical interpolation from the income estimates for 1919 and 1926. On the basis of the practically linear relationship thus found for 1919, 1920 and 1921, Mr. Leven's percentage of 14.35 for 1919 was adjusted for 1922-25 to take into consideration the changing conditions during those years.

The estimate of the number of persons in New York gainfully employed was obtained by a projection and interpolation of the proportions of the New York figures for 1910 and 1920 to the national totals for those years, and by an application of the resulting proportions to the national figures for persons gainfully employed.

PUBLIC BORROWINGS AND INDEBTEDNESS

The figures for state and local bond issues distributed according to borrowing agencies as given in Table 11 are taken from the

State Comptroller's reports. The figures for bond issues distributed according to the purposes of the loan in Table 12 are taken from the annual municipal supplements of the "Commercial and Financial Chronicle." The figures in Table 11 are somewhat larger than those in Table 12. The explanation of this disagreement is that the "Commercial and Financial Chronicle" reports only the bond issues of borrowing agencies that have incurred a total debt exceeding \$25,000. There is necessarily then an understatement in their figures.

The figures for state and local indebtedness as given in Table 13 are taken from the annual reports of the State Tax Commission. In the earlier years covered by this table there were many omissions in the reports made to the State Tax Commission and it is therefore unquestionable that the figures for these years are understatements, particularly in the case of school districts, villages and towns. In recent years, however, the reports have been much fuller and it is probable that the indebtedness figures shown for 1925 and 1926 closely approximate the actual situation.

STATE AND LOCAL TAX FIGURES

The combined figure for state and local taxes, distributed by the types of taxes, did not involve any such complicated calculation as did the estimate of the functional distribution of state and local expenditures, since the State Tax Commission has published a series of figures of "taxes collectible," distributed by the individual taxes. "Taxes collectible" can not be taken as the equivalent to tax collections, but this was not necessary for the purposes of Table 17 which was intended to show the *distribution* of tax revenues according to the types of taxes rather than the actual *receipts* from the various taxes.

SOCIAL AND ECONOMIC DISTRIBUTION OF TAX BURDENS

Table 24 of this study on "The Burden of State and Local Direct Taxes by Income Classes in New York State and in Other States, 1924," corresponds to Table 47 in the Conference Board's "Cost of Government in the United States, 1925-1926." It was impossible to ascertain the amounts of tax exempt income received by New York taxpayers distributed by income classes. This item, which was included in the table in the earlier study was necessarily excluded for both the incomes of New York taxpayers and of taxpayers in all other states appeared in Table 24. With allowance for this factor, the figures in the "Cost of Government" table are

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the sum of the items for New York taxpayers and taxpayers in all other states as given in Table 24 of this study.

Table 26 of this study carries back two years the calculations given in Table 45 of the Conference Board's "Cost of Government" study. By thus broadening the period of comparison a more valid relationship has been obtained. The qualifications that must be allowed for in the use of this Table are indicated on pages 113 and 116.

The Burden of the Manufacturing and Mercantile Corporation Tax

Tables 29, 30 and 31 are included in this study as an indication of the difference in burdens imposed upon the various industries subject to the tax, when the burden of the tax is measured by net income. The method of calculating the ratio of the tax to net income earned in New York for each industry precludes any possibility of absolute accuracy in the figure so obtained. Their comparative value, however, cannot be questioned.

No figures are available for income earned in New York State for each industry. The estimate of such income was made as follows: the total of the assets of the taxed industries located in New York was calculated by subtracting the assets segregated outside of the state from total assets. Income earned within New York was estimated by applying to the total earned income the ratio of assets within the state to total assets. The tax liability of individual corporations is calculated this way, but a large margin of error creeps in when the ratio of assets is applied to concerns grouped by industries.

APPENDIX B

THE GROWTH OF NEW YORK STATE ACTIVITIES, 1913 TO 1926

(Source: New York Legislative Document, 1926, No. 68, Table 3)

Primary Administration	Public Works	Public Welfare	Education	Regulatory and Promotional Services
<p>Board of estimate and control created, 1921.</p> <p>Tax administration centralized in tax commission, 1921.</p> <p>Creation of dept. of purchase, 1922.</p> <p>Creation of state police, 1917.</p>	<p><i>Canals:</i> Construction of Barge Canal, 1903-1920, at cost of \$150,000,000.</p> <p>Construction of canal terminals costing \$26,000,000, 1912-1923.</p> <p>Establishment of state aid to counties for road construction, 1920. Creation of department of public buildings, 1923.</p>	<p><i>Corrections:</i> Conversion of Napanoch Reformatory into institution for feeble-minded convicts, 1921.</p> <p><i>Insane:</i> Establishment of Harlem Valley Hospital, 1924.</p> <p><i>Feeble-minded:</i> Creation of Commission for mental deficiency to supervise institutions for feeble-minded, 1919.</p> <p><i>Charities:</i> Fiscal supervisor replaced by superintendent of purchases, 1922. Given control of purchasing of all institutions.</p>	<p>Increase of volume of school aid by about \$30,000,000 per year, 1919 and 1920.</p> <p>Assumption by State of cost of educating indigent, deaf, dumb and blind children in institutions, 1923.</p> <p>Further increase in volume of school aid by about \$10,000,000 per year, 1925.</p>	<p><i>Public Utilities:</i> Consolidation of public service commissions and creation of transit commission to supervise New York City, 1921.</p> <p><i>Health:</i> Narcotic drug control, 1913-1921.</p> <p>Transfer of quarantine station to Federal Government, 1921.</p> <p>Development of public health education, anti-tuberculosis campaigns and child welfare work.</p> <p><i>Agriculture:</i> Creation of department of foods and markets, 1914. Combined with department of agriculture in 1917, to form department of farms and markets.</p> <p>Establishment of Allegheny Park, 1921.</p> <p>Creation of water power commission, 1921.</p>

APPENDIX C

FINANCIAL STATEMENT FOR HYPOTHETICAL MANUFACTURING CORPORATION

ASSETS		LIABILITIES	
Cash	\$75,000	Accounts payable.....	\$100,000
Tax exempt securities (4%)..	50,000	Notes payable.....	50,000
Accounts receivable.....	150,000	Capital stock.....	
Inventories.....	175,000	Common (par value \$100)	
Land and buildings.....	200,000	Authorized \$500,000	
Machinery and equipment...	150,000	Issued.....	300,000
	\$800,000	Preferred (6%).....	100,000
		Surplus.....	250,000
			\$800,000
		Fair value of capital stock....	\$500,000

Gross sales.....	\$730,000
Net operating income for year (before income taxes).....	\$50,000
Tax exempt income from bonds.....	2,000
Net profits before income taxes.....	\$52,000

Cash dividends paid:	
Preferred.....	\$6,000
Common (8%).....	24,000
	\$30,000

This financial statement is derived from the following calculation of a balance sheet for an average manufacturing corporation, based on the capital stock returns of 68,523 taxable manufacturing corporations as reported in the United States Bureau of Internal Revenue's "Statistics of Income, 1925":

ASSETS		LIABILITIES	
Cash.....	\$43,742	Accts. payable.....	\$58,521
Accts. receivable.....	111,185	Notes payable.....	54,984
Notes receivable.....	22,660	Bonded debt.....	49,198
Inventories.....	158,852	Mortgages.....	9,136
Fixed property investments..	351,712	Capital stock (par value)	
Other items (net).....	85,918	Preferred.....	75,605
	\$774,069	Common.....	296,901
		Total.....	\$372,506
		Surplus.....	229,724
			\$774,069
Fair value of capital stock.....			\$540,256

In drawing up the financial statement for the hypothetical manufacturing corporation, all figures were reduced to round numbers. The figure for "Cash" was increased to compensate for dropping the element of "Other items" and to offset the increase in the figure for "Accounts payable." The figure for "Accounts payable" was increased to compensate for the dropping of the item "Bonded debt" which cannot be calculated on an average basis for a hypothetical corporation. These changes bring the hypothetical corporation into closer approximation with the concept of a moderately large "going" concern, since the average derived from the Bureau of Internal Revenue's figures is weighted by the inclusion of a large number of small and moribund corporations.

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