

6963

REPORT
OF THE
STATE OF WASHINGTON
TAX INVESTIGATION
COMMITTEE

APPOINTED BY

The Governor, Louis F. Hart

By Virtue of Chapter 171 of the Session Laws
of the State of Washington

1921

STATE TAX INVESTIGATION COMMITTEE

Nathan Eckstein, Seattle, Chairman

D. W. Twohy, Spokane

Alex Polson, Hoquiam

W. W. Robertson, Yakima

George M. Elliott, Tacoma

Peter McGregor, Hooper

Frank D. Oakley, Tacoma

S. B. L. Penrose, Walla Walla

Robert H. Harlin, Seattle

Reeves Aylmore, Jr., Seattle, Secretary

OLYMPIA

FRANK M. LAMBORN PUBLIC PRINTER

1922

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To the Citizens of the State of Washington:

In the month of July, complying with chapter 171 of the Session Laws of 1921, I published a statement of the tax situation in this state. Supplementing that statement I am submitting herewith the complete report of the special committee I appointed to study the tax problems of the state. In making this report public I am complying with the wishes of a great number of the citizens of the state who are studying the problem with the idea in view of bringing to the attention of the next legislature some changes in our system that will help to change the present unequal load that real estate and personal property are now bearing.

I commend to your special attention those paragraphs in this report relating to the present system of assessing property and the remedy suggested by the committee. Also the paragraph dealing with the subject of budget control and the paragraphs relating to the school finance of the state. I had given these questions considerable study prior to the submission of the committee's report and the recommendations submitted are in accord with my general views on the subject. I am in favor of a strict state control over the assessment of property. The detail of working it out is not entirely clear in my mind as yet. The budget system I have always advocated, especially a budget for the state placing the responsibility entirely on the executive and holding him to account for the management of the state's finances. The school question is an especially complicated one. I am not prepared at this time to say that I am in accord with the committee's recommendation, but it is certain that the funds being raised and expended by the educational department of this state must be handled in a different manner.

The rest of the many subjects contained in this report have been hastily examined by myself and I am not prepared to make a statement at this time as to their merit, but I have hopes that the citizens of the state will give this question continued study and be prepared at the next session of the legislature to give me their vigorous support in bringing about a better system of tax administration, to the end that governmental functions may still be carried on entirely in accord with the public's wishes, but with rigid economy.

LOUIS F. HART,
Governor.

INVESTIGATION OF TAXATION.

AN ACT authorizing the Governor to investigate the subject of taxation and to employ assistance in making such investigation, and making an appropriation therefor.

WHEREAS, real property and tangible personal property are now bearing the entire burden of taxation; and

WHEREAS, this class of property cannot be any more burdened without confiscation; and

WHEREAS, it is necessary that some steps be taken to bring about a more equitable and fair distribution of the burdens of government as related to raising of revenues;

BE IT ENACTED by the Legislature of the State of Washington:

GOVERNOR AUTHORIZED TO MAKE:

SECTION 1. That the Governor of the State of Washington be, and he is hereby empowered to take such steps as he shall deem necessary to properly investigate the entire subject of taxation.

ASSISTANTS:

SECTION 2. That he shall employ such expert assistants as he may deem necessary to make a thorough and comprehensive investigation of the entire subject of taxation.

REPORT:

SECTION 3. That he shall make and publish a report of his findings and recommendations regarding the subject of taxation at least six months before the meeting of the next Legislature, and file his report with the Legislature for its information.

APPROPRIATION \$20,000.00:

SECTION 4. There is hereby appropriated from the general fund to the Governor of the State of Washington the sum of Twenty Thousand Dollars (\$20,000.00) or so much thereof as may be necessary to be expended upon his personal voucher to pay the expenses of said investigation.

Passed by Senate March 1, 1921.

Passed by House March 8, 1921.

Approved by the Governor March 21, 1921.

Pursuant to the above resolution, the Governor addressed a communication dated June 17, 1921, to the following named citizens of the State of Washington, requesting them to act as a committee to investigate the tax system of the State and report to him a sufficient time in advance of July first to permit him to make the report required under the Act providing for the investigation:

NATHAN ECKSTEIN, Seattle	W. W. ROBERTSON, Yakima
D. W. TWOHLY, Spokane	PETER MCGREGOR, Hooper
ALEX POLSON, Hoquiam	S. B. L. PENROSE, Walla Walla
GEORGE M. ELLIOTT, Tacoma	ROBERT H. HARLIN, Seattle.
FRANK D. OAKLEY, Tacoma	

CHAPTER I.

ORGANIZATION OF COMMITTEE.

On Wednesday, July 13, 1921, the persons named met with the Governor in Seattle for the purpose of organization.

The Governor called the meeting to order, stated its purpose, and requested the committee to select a chairman and secretary. Mr. Frank D. Oakley was elected temporary secretary. Mr. Eckstein of Seattle was elected chairman. He was instructed to maintain the office of the committee in Seattle. Reeves Aylmore, Jr., of Seattle, was elected permanent secretary of the committee.

The only other business transacted at this meeting was that of *fixing dates for future meetings and giving instructions to the chairman to secure and equip an office and engage clerical help.* It was decided to hold regular meetings of the committee on the second Monday of each month.

PUBLIC MEETINGS.

The committee decided to hold public meetings in all of the principal parts of the State, and to extend to every taxpayer and to those interested in taxation, an invitation to express their views concerning the changes to be made in the tax laws. Twelve public meetings were held at: Seattle, Tacoma, Aberdeen, Chehalis, Vancouver (Washington), Yakima and Spokane. Certain dates were set for the lumber interests, the railroads, real estate owners, farmers, and fruit growers, and at these meetings an effort was made, with satisfactory results, to have every interest in the state represented. Chambers of commerce and other organizations were invited to send representatives to discuss the subject of taxation and to recommend changes that would bring relief.

These meetings were well attended and much interest was shown in the subject. In the earlier meetings an attempt was made to hold the speakers to the subject of changes in the law needed to make the distribution of the tax burden more equitable and relieve real property and tangible personal property. This plan had to be abandoned, as only a few people had suggestions to offer, but all wanted to speak on the general subject of "Too much money being spent by the taxing bodies in the state."

At meetings held in the farming and fruit growing districts it was frequently asserted that the farmer cannot rent his farm to a tenant for enough to pay the taxes on the land, and that if the tax burden becomes heavier farming and stock raising will cease to exist in the State.

The principal speakers at the meetings in the cities came as representatives of the associations of real estate brokers rather than as the

owners of real estate. The small home owner was conspicuous by his absence. The committee held two public meetings for the purpose of hearing from owners of real estate, but only a few owners appeared, and their concern was not in a changed system of taxation, but in some plan to stop the local taxing bodies from proceeding with the expenditure of public funds over the protest of the owners of the property that carries the load.

At several of the meetings papers were read which showed that the several organizations of business and labor in the state were willing to, and did, study the subject with the idea of helping to bring about some beneficial change. These papers are bound in a separate volume accompanying this report.

It was not deemed advisable to have a detailed stenographic report of the proceedings of the meetings. The stenographer was accordingly instructed to secure the name of each speaker, follow his remarks, and take down only such statements as related to taxation questions. The record of each meeting is separately kept and copies of the papers read at each meeting are attached to the record.

A reading of the record of these meetings will convince the reader of one thing, at least—that many people feel that the state is suffering from too much government. The committee suggests to the Governor the advisability of publishing an outline statement in simple form showing all of the divisions of government, organizing it in such a manner as to present the demands of government for state, county, city and district, pointing out the numerous inspections, their cost, and the good derived. The people do not know what they are getting for their tax dollar. If they knew they could better advise their representatives in the legislature.

Another thing is disclosed by the record: property is not equitably assessed. This fact is known by many property owners from personal experience and in every meeting much time was used in calling the committee's attention to these inequalities and in presenting proof of assessments varying from twenty to a hundred seventy-five and two hundred per cent.

The meeting of January 30th and 31st, held in Seattle, was of particular importance. Oregon has a committee appointed to do the same work for that state that this committee is doing for the Governor. At this time the majority of the Oregon committee, namely, Mr. I. N. Day, chairman, Mr. Coe A. McKenna, secretary, Mr. Charles A. Brand, and Mr. Walter M. Pierce, met with the Washington committee. A reading of the short report of this meeting is especially recommended.

At this meeting also, the preparation of our report was discussed. A study of the tax problems of other states and of the reports made by other committees of like character led the committee to feel that the report should be presented to a tax expert for final draft. It was unanimously decided to ask Dr. Harley L. Lutz, professor of economics

in Oberlin College, and editor of the Bulletin of the National Tax Association, to come to Seattle and, with the secretary, prepare the report, based upon the findings of the committee, and to include in the report the outlines of a model tax system for the State of Washington, based upon the plan proposed by the National Tax Association, adapted to the special needs of our state.

Committee meetings were a heavy draft on the time of each of the members. Nevertheless, the meetings, with few exceptions, found all members in attendance. About the first of the year Mr. D. W. Twohy was made a western representative of the Federal Reserve Board, and his duties as such kept him from the committee meetings, but in order that he might be kept advised, his nephew, Mr. Edmund P. Towhy, at his request, attended the meetings in his behalf.

SUMMARY OF RECOMMENDATIONS AND SUGGESTIONS.

For convenience the committee's findings and recommendations are summarized here. A more detailed discussion of these suggestions will be found in the body of the report.

—1—

The establishment of a state tax commission of three members, to be appointed by the Governor for a term of years and at sufficient salaries to attract high class men, and the thorough revision of our system of tax administration under the control of this tax commission. (Page 37.)

—2—

The introduction of assessment at full value, with proper safeguards against local extravagance during the transition. (Page 40.)

—3—

The development of a budget system for the state and of a plan of budget control over local spending districts including counties and municipalities, this control to be vested in the proposed state tax commission. (Pages 48-49.)

—4—

The most careful economy and efficiency in public expenditures on the part of state, county and local officials. (Pages 11-17.)

—5—

The assessment of all public utilities by the proposed state tax commission. (Page 32.)

—6—

The equalization of all assessments by the proposed state tax commission and the abolition of the present ex officio board of equalization. (Page 40.)

—7—

Administration of the inheritance tax by the proposed state tax commission. (Page 41.)

—8—

Increase of the filing fees and annual license taxes on corporations. (Pages 53-54.)

—9—

Increase of the tax on fuel oil used in internal combustion engines to three cents per gallon. (Pages 60-61.)

—10—

Increase of the fees charged by various county offices sufficient to make these offices self-sustaining. (Pages 54-55.)

—11—

The establishment of a highway tribunal under the highway department for the purpose of securing more vigorous action against those who violate the highway law. (Page 53.)

—12—

Restriction of the personal exemption to household goods and personal apparel. (Page 58.)

—13—

More strict construction of the exemption of cemeteries. (Pages 58-59.)

—14—

Regulation of the maturity of bond issues in accord with the life of the improvement financed thereby and the use of serial bonds to prevent refunding. (Pages 59-60.)

—15—

Program of reforestation through tax adjustment. A constitutional amendment probably will be necessary to secure the full benefits of this program. (Pages 55-58.)

—16—

Extension of the jurisdiction of the department of public works to all motor vehicles using the highways, and the adjustment of the schedule of fees to a level that will make this division of the depart-

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ment self-sustaining. Consideration of a gross earnings tax on commercial motor vehicles when all have been brought under the jurisdiction of the department. (Pages 51-53.)

—17—

School Finance. (Pages 42-45.)

—18—

Discussion of the taxation of intangible property. (Pages 62-63.)

—19—

Memorial to Congress on the following subjects:

(a) Supporting the proposed amendment to U. S. Revised Statute, Section 5219, relating to the taxation of national banks. (Pages 36-37.)

(b) Supporting the proposed amendment to the federal constitution to prevent further issues of tax-exempt securities. (Pages 69-73.)

(c) Urging the federal government to relinquish the inheritance tax for the use of the states. (Page 75.)

—20—

Introduction of a gross earnings tax for telegraph companies. (Page 35.)

—21—

Centralized assessment of the property of all public utilities by the proposed state tax commission. (Pages 31-33.)

—22—

Introduction of a mortgage recording tax of fifty cents on each \$100, to apply to all mortgages in excess of \$1,500. (Page 55.)

—23—

Revision of the brackets of the inheritance tax with a view to increasing the tax. (Page 61.)

—24—

Removal of the county assessor from the county board of equalization. (Page 69.)

CHAPTER II.

THE REVENUE AND EXPENDITURE SITUATION.

The revenue problem which confronts the State of Washington is not one peculiar to this state alone. Every state in the union is seeking, in one way or another, to meet satisfactorily the same problem. In some it is no doubt more acute than here. Everywhere the costs of government are rapidly mounting, and tax rates are rising to unprecedented levels. No fewer than eight states have recently created special committees of investigation similar to this one.

In some respects the situation in Washington is quite different from that which prevails in the older states, or in those with markedly different economic characteristics. Potentially this state possesses vast wealth in lumber, minerals, fisheries and soil, but these resources are as yet not fully developed. Their full development must wait for population and capital. The state is in its infancy economically. It therefore lacks the immense reservoir of tax paying power to which older and more wealthy states have access.

Nevertheless, in Washington we have been under the necessity of providing the agencies of organized government and of modern social organization on a comprehensive scale. Our school system extends to every corner of the state, and we have provided in many places facilities for the education of a few children which would be adequate to care for larger numbers at little or no additional cost. We have covered the state with a magnificent system of arterial highways, hundreds of miles of which traverse sparsely settled districts. In various other ways we have been obliged, by the pressure of public opinion and drift of the times, to provide those governmental facilities which make most of the difference between pioneer conditions and comfortable modern life, and to do this for a relatively small population and on a relatively small basis of taxable wealth. The state and local financial problems are at present serious, largely because of the gulf between the enormous physical territory to be served and the limited available taxable resources. The tax duplicates of many cities in the East exceed the entire duplicate of the state, yet we are endeavoring to provide governmental services on a scale and of a quality comparable with the East, for an area of 69,127 square miles.

The act which created this committee indicated a definite problem to which an answer was to be sought. This problem is stated, in the terms of the enactment, as that of relieving real estate and tangible personal property of a part of the tax burden which these classes of property are now carrying. Your committee understands this to be, in other words, the problem of the more equitable distribution of the tax burden. This problem may be approached from two angles, both of which have been given careful consideration:

First: The more equitable distribution of the tax burden through improved administration and enforcement of existing tax laws.

Second: A redistribution of the tax burden through the development of new sources of revenue.

We have been unable, however, to confine our inquiries wholly to this rather limited view of the state's revenue problem. We have realized that the tendency towards further increase in the outlays made by the state and local subdivisions is steady and more or less inevitable, so that the question of the future increase in the total revenue needs cannot be entirely avoided. The full consideration of the state's future revenue requirements would carry us far beyond the scope of the problem committed to us, and we have undertaken no forecast of these needs, nor have we deemed it proper to formulate a complete revenue program to meet the public requirements for an indefinite time. A thorough study of this larger problem would require more time and more ample resources than were at our disposal. Farther on in this report will be found some suggestions which look toward the development of a model taxation system for the State of Washington.

REVENUE NEEDS OF THE STATE AND LOCAL SUBDIVISIONS.

The first angle of our problem is that of the revenue needs of the state and its local subdivisions, and the manner in which these needs are being met out of the existing revenues.

1. State Expenditures:

The aggregate of taxes levied in the state for all purposes for the years 1910, 1915, 1920 and 1921 is shown in the following summary table:

TABLE I.

	TOTAL TAXES LEVIED FOR ALL PURPOSES IN			
	1910	1915	1920	1921
State General	\$1,925,000	\$1,302,000	\$5,407,000	\$2,669,000
State Military	140,000	208,000	300,000	236,000
State Highways	816,000	1,588,000	3,004,000	2,066,000
State Educational	2,000,000	3,168,000	7,657,000	9,087,000
State Capitol			598,000	589,000
Veterans Compensation				1,180,000
County Total	4,785,000	10,275,000	16,249,000	16,468,000
School Districts	4,693,000	7,276,000	17,213,000	16,289,000
Ports and Parks				403,000
City	7,034,000	8,822,000	14,107,000	13,412,000
Road Districts	2,175,000	2,699,000	5,640,000	4,102,000
Various Local Districts	125,000	2,150,000	1,116,000	1,600,000
Aggregate Totals	\$27,083,000	\$37,488,000	\$72,352,000	\$68,001,000

These figures show that there has been a steady, and in recent years, a rapid increase in the levies for all purposes. The greater part of this increase has occurred in the second half of the period. This period, it

should be remembered, has been one of rapidly rising prices, and the sums raised by taxation reflect in considerable degree the growing inflation of prices and costs. The citizen has found that the dollar of private income would buy less as prices advanced. Governments are subject to the same economic law, and like the individual must seek such compensation as may be found in the period of declining prices.

This increase is shown graphically in the accompanying chart. It will be noted that the total tax levies have receded somewhat from the peak year 1920. This corresponds with the general turn in prices and business activity which came in that year.

Public bodies, however, are not able to take full advantage of falling prices without the greatest alertness and vigilance on the part of all public officials. Economy and efficiency in government are plausible slogans, but unless the whole body of taxpayers and public officials earnestly and honestly seeks to achieve these ends as the readjustment of prices occurs, the cost of government will not come down.

It must be emphasized that alertness and the will to economize will not suffice alone to reduce governmental outlays, unless there are also at hand the proper means for curtailing the expenditures of the different departments. This control can be effectively provided only through a budget system, which will operate not merely to set definite expenditure limits, but to compel more careful husbanding of the revenue resources.

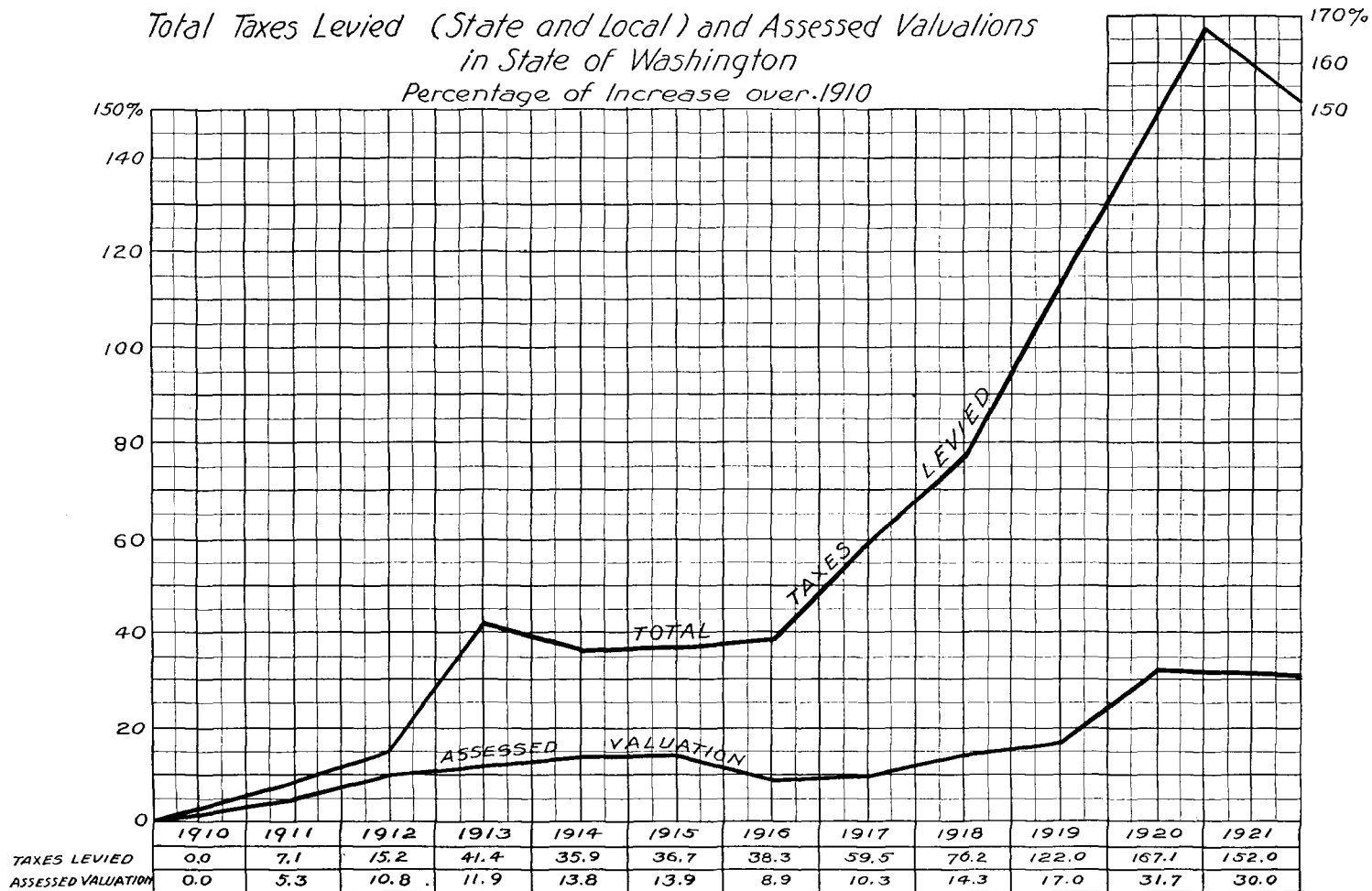
A more accurate view of the character of governmental costs may be obtained if we analyze the state and local outlays from a different standpoint. We present first the expenditures of the state arranged according to the principal functions of government.

TABLE II.
GOVERNMENTAL COST PAYMENTS FOR STATE PURPOSES IN 1915 AND 1919,
ACCORDING TO U. S. CENSUS BUREAU CLASSIFICATION.

Class of Expenditure.	1915	1919
General Government	\$362,956	\$421,420
Protection to Life and Property.....	445,431	674,459
Development and Conservation of Natural Resources.....	237,638	451,579
Health and Sanitation.....	66,027	102,062
Highways.....	1,524,481	3,448,753
Charities, Hospitals and Correction.....	906,251	1,306,305
Education.....	4,638,711	4,952,270
General.....	316,165	271,253
Totals.....	\$7,939,660	\$11,628,608

It is clear that the bulk of the state expenditures are for general social functions, such as education, highways and philanthropic institutions, and that the primary functions of the state government are a relatively small part of the total cost. The state has entered these

*Total Taxes Levied (State and Local) and Assessed Valuations
in State of Washington
Percentage of Increase over 1910*



newer fields of social welfare in response to popular pressure and the general tendency of the times. There are few who would demand the cutting off of these state activities, but all are inclined at times to forget the part they play in the increase of state taxes.

The causes for the increase in state expenditures are presented in terms of the various state levies in a table found in the appendix to this report. This table gives all of the state levies made in each year since the beginning of statehood. In the first year, 1889, there were only two levies—those for the general government and the militia. The third levy, for interest on state bonds, was added in 1890, and the fourth, for state school purposes, in 1895. The state bond levies disappear after 1902, but a public highway levy was added in 1906. The total state levy for all purposes rose gradually from 2.62 mills in 1889 to a peak of 7.60 mills in 1901, from which it receded to 4.80 mills in 1908. Four years later, in 1912, six additional levies were authorized, for permanent highway, college and normal school purposes, and the total state levy began to rise more rapidly. The capitol building levy was added in 1917, the reclamation and revolving fund levy in 1919, and the Centralia normal school and the bonus levies were started in 1921. The total number of separate state levies has now mounted to fourteen, with an aggregate for state purposes of 14.639 mills in 1921. The story of these levies confirms the evidence of the above table to the effect that the principal reasons for increase in cost of state government are found in the expansion of governmental functions.

2. Local Expenditures:

Similar data for a complete analysis of the total local outlays are not readily available. In 1919 there were five cities with a population in excess of 30,000, and for these the United States Census Bureau published figures which were arranged on a comparable basis. These are presented in the following table:

TABLE III.
ANALYSIS OF GOVERNMENTAL COSTS OF FIVE CITIES IN 1919.
(SEATTLE, SPOKANE, TACOMA, EVERETT, BELLINGHAM.)

General Government	\$1,470,000
Protection to Life and Property.....	2,578,000
Health	376,000
Sanitation	897,000
Highways	1,288,000
Charities, Hospitals and Correction.....	506,000
Education	4,789,000
Recreation	380,000
Miscellaneous	60,000
General	218,000
Total.....	\$12,562,000

It appears from this analysis that in these cities the total cost in 1919 of the primary functions of government, such as the operation of

the general governmental organization and the protection of life and property, was \$4,048,000, or slightly less than one-third of the total outlay. The other two-thirds, or more than \$8,500,000, was spent for various purposes which may be characterized (broadly) as the social functions of modern government, such as education, highways, the promotion of health and sanitation, recreation and similar objects.

We are not here concerned with the question of the degree of efficiency and economy which may be attained by these cities in the performance of the various activities which they have undertaken. The fact remains that in every modern community there is an irresistible demand that these activities be undertaken, and governmental functions are expanding in response to popular pressure.

These expenditures are valuable and necessary for the general welfare. They are for the social activities which have wrought the transformation from the raw conditions of pioneer life to the highly organized social life of the present time in the great northwest. These activities, however, are less fundamental than the primary functions of government, such as the maintenance of public peace and safety, and the protection of life and property. If severe retrenchment in governmental costs is to be undertaken, the greater part of the reduction must occur in the field of the less fundamental governmental services, that is to say, in the social activities.

Those who demand that severe economies in governmental cost be introduced, should realize the full significance of these demands.

In view of the rapid increase of public expenditures, and of the fact that the bulk of these increases have been caused by the great expansion of the social activities of government, it is equally necessary to emphasize the importance of scrutinizing with care any proposed further extension of governmental functions. In the flush of enthusiasm for new projects the public is often disposed to overlook the fact that these new governmental undertakings inevitably mean heavier taxes. A sober consideration of this increase of burden should precede every further expansion of governmental functions. Whenever possible such expansions as are absolutely necessary should be accompanied by the development of new sources of revenue to cover their cost.

REVENUE DERIVED FROM EXISTING SOURCES.

As another phase of our preliminary survey of the general financial situation in the state we turn to a summary of the revenues derived from existing sources. We have made no attempt to strike a balance of income and outgo. In the above section we pointed out the chief causes of the increased expenditure. Here we are surveying the leading sources of the public revenues.

The grand total of all moneys collected in the state for all public purposes is not easy to ascertain because there is no standardized

method of reporting the facts relating to the public funds on the part of the several officials, and also because there never has been coordination and compilation of the fees and licenses which are collected and disbursed within the counties. Our figures relating to this subject are therefore tentative and subject to correction.

We present in the table below a compilation of the total taxes for all purposes in the year 1921, except the indirect revenues collected by the various local taxing units.

TABLE IV.

SUMMARY OF REVENUES FROM ALL SOURCES, FOR ALL PURPOSES, 1921.

1	Property Taxes	\$68,206,809 00
2	Inheritance Taxes	460,765 55
3	Gasoline Taxes	411,848 63
4	License Fees:	
	(a) Motor Vehicle Licenses.....	3,556,962 44
	(b) Corporation Licenses	161,571 64
	(c) Other Licenses and Fees.....	49,662 99
5	Interest on Public Funds:	
	(a) Bank Deposit Interest.....	192,038 79
	(b) Investment Interest	1,059,780 51
6	Miscellaneous Receipts	18,140,531 45
	Total.....	\$92,239,371 00

With exception of indirect revenues collected by counties, cities and other taxing units.

Compiled in the Department of Efficiency.

The most significant fact about this table is the large proportion of the total taxes for all purposes that is borne by property. In 1921 this was 73.9%. This situation is not peculiar to Washington. In many of the older states a similar ratio of property to other taxes is found.

For example, in Minnesota the general property tax produced 57.7% of the revenues for state purposes in the same year, and 98.5% of the local revenues, or 89.1% of the total revenues for all purposes. In Wisconsin, the taxes on general property produced for 1920 80.7% of the total for all purposes. It is evident that even in those states which have made the most decided changes of their systems of taxation, the property of the state is still by far the most important single source of revenue.

This fact emphasizes the importance of thoroughly efficient property tax administration. Every state has more to gain from a thorough reform of its property tax than from any other single measure of tax reform.

We may pursue this analysis a step farther by examining the distribution of the property taxes to the different classes of property. The distribution since 1914, as shown by the reports of the state tax commission has been as follows:

TABLE V.
PERCENTAGE DISTRIBUTION OF TAXES TO DIFFERENT CLASSES OF
PROPERTY 1914-1919

Classes of Property	1914	1915	1916	1917	1918	1919
Railway Track and Right of Way.....	10.70	10.46	10.58	10.47	9.71	9.60
Railway Rolling Stock, etc.....	1.49	1.53	1.57	1.58	1.43	1.40
Telegraph Lines and Property.....	.04	.04	.04	.03	.03	.025
Telephone Lines and Property.....	.53	.64	.67	.68	.68	.646
Street Railways.....	1.73	1.69	1.62	1.60	1.79	1.56
Total Public Utilities.....	14.49	14.36	14.48	14.36	13.64	13.245
†All Other Real Property.....	72.90	73.46	72.32	71.79	70.83	69.50
All Other Personal Property.....	12.61	12.18	13.20	13.85	15.53	17.27
Total.....	100.00	100.00	100.00	100.00	100.00	100.00

†Includes town and city lots, farm lands, unimproved lands, timber lands, and all other classes of lands.

The actual result of the assessment and equalization of property since 1914 has been to decrease slightly the relative proportions of the taxes levied on public utilities and real property, and to increase the proportion falling on personal property.

The relative tax burden on real estate in Washington, as shown by the above table may be compared with the tax burden on real estate in some other states. In Ohio real property bore approximately 60%, the public utilities 12%, and personal property 28% of the direct taxes levied in 1920. In California real property carried 67.2% of the direct taxes in 1920, and in Massachusetts in recent years real property has carried between 65% and 70%.

The following distribution of revenues from different sources was reported for the city of Milwaukee for the years 1913 and 1920:

TABLE VI.
SOURCES OF REVENUE IN MILWAUKEE, 1913 AND 1920†

	1913 Revenue	% of Total 1913 Revenue	1920 Revenue	% of Total 1920 Revenue
General Property Tax.....	\$5,198,919	54.4	\$12,565,818	67.9
Income Tax.....	506,965	5.3	1,076,561	5.8
Water Revenue.....	871,452	9.2	1,117,337	6.0
Licenses.....	512,006	5.4	248,111	6.4
Miscellaneous.....	2,437,661	25.7	3,484,979	18.9
Total.....	\$9,487,606	100.0	\$18,492,568	100.00

†Milwaukee's Tax Problem, issued by the Citizens' Bureau of Milwaukee, 1921.

It is apparent that the relative distribution of taxes to different classes of property in Washington is not greatly different from that which prevails in other states. We do not mean that this burden is

not a heavy one, nor that it is a situation which does not call for study and possible correction. We cite these figures to show that the state of affairs complained of is not confined to Washington.

There can be little doubt that the present property tax burden, the country over, bears with greater apparent weight upon all classes of property on account of the serious effects of the general business depression of the past two years. Business activity has greatly slackened, and rents and incomes have declined, while taxes have remained fairly constant because of the comparative inflexibility of public expenses. For example, the city of Seattle bore with patience the tax load of three to five years ago and in addition the tremendous burden of special assessments created by the local improvements then being paid for. Business at that time was good, and the tax load was not then thought to be an oppressive burden. Business is dull now and the tax load is oppressive in consequence.

We have suggested that the tendency toward a still higher cost of government which is now so universal may continue for a time in Washington. Whether this increase, if it occurs, will press more and more heavily on the taxpayers will depend upon the relative growth of the wealth of the state, and the degree to which the public officials, state, county and local, are able to introduce higher standards of efficiency and economy in public affairs. We are glad to be able to say that at our public hearings little evidence or testimony was offered to show that public officials are careless, indifferent or inefficient in their administration of the public business. On the contrary, citizens often spoke of the high quality of service given by many of these officials.

We have been impressed, however, by the extremes to which the multiplication of local boards, levying bodies, and tax-spending agencies have been carried. Within the county there are the municipalities, the school districts, road districts, drainage districts, and other local improvement areas, and in some are port and harbor boards. The cost of local government has been unduly enhanced by reason of the vast number of overlapping tax-levying and administrative boards. A reasonable reorganization of the local government could be effected which would safeguard the popular interest in local autonomy while it would make possible considerable economies.

CHAPTER III.

Survey of the Washington Tax System.

1. OUTLINE OF THE REVENUE LAWS:

The trend of public expenditure is, as we have seen, toward greater outlay. This trend can only be counterbalanced by greater efficiency in government or by the curtailment of public functions and the reduction of the social subdivisions. It is highly desirable that economy and efficiency should prevail, and it is of the utmost importance that each proposed extension of governmental activities should be scrutinized with great care, especially in view of the steady rise of tax rates and tax burdens. It is improbable that any radical retrenchment will occur in either the range of governmental activities or in the level upon which these functions are now being financed; and the fundamentally important problem becomes, therefore, that of the more equitable distribution of the existing tax burden. This distribution is determined by the kind of tax system which is in use in the state and by the manner in which the taxes are administered. There is general complaint that certain classes of property are now carrying an undue proportion of this burden. The basis of this complaint and the possible lines of reform can only be understood from a survey of the tax system and its present administration.

The basis of the Washington tax system is the general property tax, which is prescribed by Article VII, Sec. 1, of the constitution. This section is as follows:

"All property in the state, not exempt under the laws of the United States or under this Constitution, shall be taxed in proportion to its value, to be ascertained as provided by law."

Section 2 contains the further provision that, "the legislature shall provide by law a uniform and equal rate of assessment and taxation on all property in the state according to its value in money and shall prescribe such regulations by general law as shall secure a just valuation for taxation of all property, so that every person and corporation shall pay a tax in proportion to the value of his, her, or its property."

The law now requires that all property be assessed for taxation at fifty per cent of its value in money. The assessed value of real property is to be fixed in every even numbered year, and such property is to be assessed and taxed in the district where the same is located. Personal property is defined by the statute as including "all goods, chattels, or estates; all improvements upon lands the fee of which is still vested in the United States or the State of Washington, or in any railroad company or corporation, and all and singular of whatsoever kind, value, nature or description, which the law may define or the courts interpret, declare and hold to be personal property, for the pur-

pose of taxation" The legal definition expressly excludes from the category of personal property for purposes of taxation, all property used exclusively in trade between this and other states or countries, and also all mortgages, notes, accounts, certificates of deposit, tax certificates, judgments, state, county, municipal and school district bonds and warrants. No deduction is now allowed on account of an indebtedness owed. Leases on real estate and all leasehold interests of a term less than the life of the holder are to be regarded as personal property.

All personal property shall be listed and assessed in the county in which the owner or agent resides. Exception to this general rule is made in the case of standing timber held or owned separately from the land, fish traps and nets and fishing locations, lumber and saw logs. These classes of personalty are to be assessed where they are situated.

Corporations:

The real and personal property of ordinary business corporations is to be listed and assessed in the same manner and by the same rules as the similar property of individuals. The personal property of gas, electric and water companies, street railroads and other road and turnpike companies, and of express, transportation and stage companies is to be assessed in the counties where the same is usually kept. The operative property of steam and electric railroads and telegraph companies is assessed by the state equalization committee.

Bank stocks are assessed to the owners thereof in the cities and towns where such banks are located. The assessment is at the full and fair value in money as of March first, with a deduction of a proportionate part of the assessed value of the real estate belonging to the bank. In practice the banks assume and pay these taxes for their stockholders. Shares of building and loan associations are exempt.

Insurance Companies:

Insurance companies are under the jurisdiction of the state insurance commissioner. The state has provided for a series of license fees, mainly for regulative purposes, and also for a tax on premiums as a revenue measure. The schedule of license fees paid by the companies include:

- (1) For filing articles of incorporation \$25 00
- (2) For filing amended articles of incorporation 10 00
- (3) For filing annual statement of condition and report of
Washington business 20 00
- (4) For filing other miscellaneous papers 1 00

The state also imposes a tax of 2¼% on all premiums collected or contracted for. Companies engaged in any kind of insurance other than life, are permitted to deduct from gross premiums the amounts paid policy holders as returned premiums. Life insurance companies

may deduct only the sums paid as premiums to admitted companies as re-insurance. If any insurance company shall have 50% or more of its assets invested in any bonds or warrants of this state, or bonds or warrants of any county, city or district of this state, or in taxable property within the state, or in first mortgages upon improved real estate within the state, the tax shall be 1% of the amount so collected.

Privilege and License Taxes:

In addition to the property tax and the license taxes mentioned above, the state imposes a number of privilege and license taxes, partly for the purpose of securing revenue, and partly as a means of regulating certain activities. Express companies pay 5% and car companies 7% on gross receipts from business done within the state in lieu of all other taxes except on office and other equipment in the various localities. The object in this case is simply that of securing revenue. The nature of the business makes any other form of taxation impracticable.

Motor Vehicles:

Motor vehicles are taxed as personal property, and in addition the owners are required to secure annual licenses, the cost of which is determined by the size and power of the cars. Each person who drives an automobile, whether owner or not, is also required to secure a license as an operator. The receipts from these license taxes are used exclusively for the construction and maintenance of the highway system of the state, and the recorded serial license numbers afford a means of regulating and controlling the use of motor vehicles.

Corporation License Taxes:

Two distinct license taxes are imposed upon corporations. The first is the filing fee of \$25.00 which is exacted from all new concerns at the time the application is filed for the articles of incorporation. The second is the privilege tax of \$15.00 per annum, which is levied upon all corporations doing business in the state. These receipts are covered into the state general fund.

Inheritance Tax:

A tax is imposed upon the net value of all property within the jurisdiction of this state, and any interest therein, whether belonging to the inhabitants of this state or not, and whether tangible or intangible, which passes by will or inheritance, or by grant, sale or gift in contemplation of death. The rates are graduated according to the size of the estate and the degree of relationship of the beneficiary. Bequests to charitable and educational institutions are exempted. The inheritance tax receipts are deposited in the state general fund.

Poll Tax:

An annual poll tax of \$5.00 is imposed upon all persons in the state over twenty-one years and under fifty years of age, except idiots, insane persons and persons supported at public expense. Four-fifths of the proceeds are to be deposited in the state general fund, and one-fifth in the county current expense funds. In the event that the collection under the levies authorized by the Veterans Equalized Compensation Act are insufficient to pay the interest and principal on the bonds issued under this act, the legislature shall make appropriations from the general fund for these purposes in an amount not to exceed the poll tax receipts deposited in this state fund. (L. 1921, Ch. 174.)

Gasoline Tax:

An excise tax of 1c per gallon is now levied upon all liquid fuel sold in the state for use in internal combustion engines, to be paid by the distributors thereof. Kerosene is excluded from the operation of the tax. The receipts are deposited to the credit of the highway fund. (L. 1921, Ch. 173.)

Various Local Licenses and Fees:

The various local officials in counties and cities are authorized to collect fees for a considerable number of services rendered. Examples are the fee for the issuance of marriage licenses, the filing and recording of real estate transfers and mortgages, the issuance of warrants, etc. These fees are charged for the purpose of defraying the costs of the local offices, and the collections are used for that purpose.

2. ADMINISTRATIVE FEATURES OF THE WASHINGTON TAX SYSTEM:

We have already stated that the most important aspect of the problem of public finances in this state is, in our opinion, the more equitable distribution of the tax burden. It is evident that this is a problem which involves both the form of the tax system, that is, the kinds of taxes that are used and the manner in which these taxes are administered. In the preceding section are summarized briefly the kinds of taxes used in Washington, and in this section we shall first outline very briefly the administrative machinery which has been set up and then proceed to our criticism of the operation of the existing system of state and local taxation.

Administrative Organization:

The first, and in many respects the most important tax official is the assessor. The county is the assessment district, with the exception of Spokane and Whatcom Counties, in which the township is the unit. The assessor is locally elected, serving in the townships for one year, and in the counties for four years.

It is the duty of the assessor to call upon each person, firm or corporation in the district and secure from them lists of their taxable property. The law requires that the assessor view this property and assess or determine the value thereof for taxation purposes. The accuracy and completeness of the lists are verified by the taxpayers' affidavits, but the oath does not apply to the valuations which are placed on the several items by the assessor. Deputies may be appointed for such periods and at such compensation as may be authorized by the county commissioners. When the assessment is completed for the district the lists go to the local board of equalization for review, correction and equalization. The county auditor is empowered to add omitted property.

The county board of equalization is composed of the county commissioners, the county assessor and the county treasurer, or a majority of these, with the assessor acting as clerk. This board meets annually on the first Monday in August for the purpose of examining and comparing the returns of the assessment of property in the county. The councils of cities of the first and second class shall select a committee of three members to act with the county board with respect to all property situated within such city. In the course of this session, which may last not longer than three weeks, the county board may raise or lower the valuation of any tract, lot or parcel of real estate, or of any class of personal property, or the aggregate value of the personal property returned by any individual, wherever it believes that the value as assessed is not the true and fair value for taxation purposes. Five days notice in writing must be given to any owner of real or personal property before an increase may be made in the assessed value.

The tax rolls for the counties, when equalized, are forwarded to the state auditor for submission to the state equalization committee. This committee is composed of the governor, the state auditor, and the state treasurer, acting *ex officio*. The sessions of this committee begin on the first Tuesday in September, and may continue not more than twenty days. The committee is required to "classify all property, real and personal, and to raise and lower the valuations of any class of property in any county to a value that shall be equal and uniform so far as possible in any part of the state, for the purpose of ascertaining the just amount of taxes due from each county for state purposes."

The State of Washington has found it difficult, for various reasons, to develop and adhere to a consistent policy of centralized tax administration. The following resume of the history of the state tax administration since the organization of the state government reveals the lack of clear-cut conception of the administrative problems involved:

"When the State of Washington was admitted to the Union in 1889 the general property tax had already been established as the basis of its financial

system. The new state presented the relatively simple economic conditions which everywhere have proved most favorable environment for the development of that system of taxation. The original tax administrative organization was simple and displayed the characteristic decentralization of real authority. The local assessment was in the charge of a county assessor over whom no central control existed. This officer had little real authority over the multitude of deputy assessors in the tax districts, a condition which was highly favorable to the emergencies of the ubiquitous evils of undervaluation, evasion and discrimination in assessments. The statewide existence of these conditions was evidenced by the establishment of a state board of equalization in 1891. The duties of this board, originally composed of the secretary and auditor of state and the land commissioner, were transferred in 1893 to the board of land commissioners, a body which had superseded the single official in charge of that department. In 1897 the legislature reverted again to the original plan of 1891. These changes were due to the experiments that were being tried out in the organization of the land office. They suggest that the state board of equalization was not taken seriously and that considerations of convenience and economy, to say nothing of politics, took precedence over equitable tax administration.

"The forces which brought forth the tax commission are difficult to trace. No evidence has been found of a strong public sentiment such as has so often been the fore-runner and to some extent the progenitor of the tax commission in some other states. So far as can be learned, no special investigations had been made before the board of tax commissioners was decided upon and the absence of a clear formulation of plans resulted in several years of piece-meal legislation in the effort to develop an efficient administrative body. To illustrate: The board of tax commissioners was established in 1905 and at that time was required to supervise the tax system, to assist in the state equalization and to administer the inheritance tax. In 1907 the central assessment of railroad, telegraph, express and private car line companies was initiated and placed under the board's jurisdiction. In this year also the board was placed in charge of escheats, and in 1909 it was made an excise board with the duty of issuing and collecting for, the annual liquor licenses. The laws relating to the administrative authority of the board of tax commissioners evolved only slowly to the stage of a clear cut definition of that body's status and functions. They had hardly reached that stage in 1915 when the legislature removed the tax commissioners from the state board of equalization, leaving that body composed of the auditor, the commissioner of public lands, and a member from the public service commission. This reaction toward a more primitive and clearly less satisfactory arrangement was only a temporary manifestation of the political struggle of which the tax department had been the center for years. The legislature of 1917 abolished the tax board and substituted a single commissioner, but returned him to the state board of equalization."

Lutz—The State Tax Commission, 1918, pp. 352-353.

The nominal headship of the state tax system is vested in a department of taxation and examination, which is in the charge of a director. This director is appointed by the governor with the consent of the Senate and holds office at the pleasure of the governor. The director of taxation is required to "secure valuations and keep a record of valuations of all classes of property, real, personal, and mixed, tangible and intangible, throughout the state," and for that purpose to "require of all officers, examiners, inspectors, assistants and employees of the department of taxation and examination, and of all

officers and employees of other departments of the state government whose work makes it possible to ascertain valuations, the filing of reports with the department of taxation and examination, giving information as to such valuations and the source thereof, to the end that there shall be on file, for the use of the state equalization committee, information as to property valuations in every section of the state."

The director of taxation is also given the power, exercised by the former state tax commissioner, of general supervision of the taxation system, including general supervision of assessors and county boards of equalization, conferring with, advising and directing assessors, boards of equalization and county commissioners as to their duties under the law, and the direction of the proceedings, actions or prosecutions which may be instituted for the enforcement of tax laws. He is also authorized to prescribe the books and forms to be used in the assessment and collection of taxes, to summon witnesses in any hearing on the subject of taxation, to visit the counties for the investigation of the methods used in the assessment and equalization of property, and to investigate thoroughly all complaints made to him of illegal, unjust or excessive taxation. These powers of supervision were construed by the Supreme court to mean something more than mere advisory oversight in *Great Northern Railway vs. Snohomish County*, 48 Wash., 478, but the decision lacked authority since the law did not provide an adequate means of enforcement of the tax commission's order.

It is evident that the state does not have, at present, a sufficient degree of administrative centralization to achieve the best results in the assessment and equalization of property. We shall outline in a later section of the report our specific suggestions for the correction of this situation.

3. OPERATION OF THE WASHINGTON TAX SYSTEM.

(a) *Real Estate*: The aggregate assessment of real estate from 1910 to 1920 by the classes as established by the state board, is shown in the following table:

TABLE VII.
REAL ESTATE ASSESSMENT 1910-1920.
(Millions)

	1910	1912	1914	1916	1918	1920
Timber Lands	\$76.5	\$89.4	\$93.5	\$85.8	\$82.2	\$100.6
Other Unimproved Lands.....	63.4	62.6	69.2	66.6	70.1	78.1
Improved Lands	140.2	159.6	157.5	151.6	158.9	198.5
Improvements on Lands.....	21.5	24.8	27.1	29.6	34.1	40.8
Town and City Lots.....	267.1	269.3	266.3	238.8	237.3	248.8
Improvements on Town and City Lots.....	110.2	123.9	128.5	129.2	135.4	153.5
Total, Lands and Improvements.....	\$678.8	\$729.8	\$742.1	\$701.7	\$718.1	\$820.2

(Compiled from the reports of the State Board of Equalization.)

These figures suggest the conclusion that the assessment of real estate in Washington has been unequal and inequitable as among the different classes of real property. They also afford grounds for the conclusion that the constitutional and legal rules of assessment have not been generally regarded.

For example, the aggregate assessment of all lands in the state was higher in 1914 than in either of the two subsequent appraisals. It is doubtful if real property values in Washington were actually declining during these years of war prosperity, but if, as a matter of fact, the actual values of the different classes of real property were declining during that period, then the sharp increases made in 1920 were quite unjustifiable.

The acreage of lands assessed also reveals some interesting and significant variations in the decade since 1910, as is shown by the following table:

TABLE VIII.
NUMBER OF ACRES ASSESSED 1910-1920.

	1910	1912	1914	1916	1918	1920
Total Acres	22,148,000	22,965,000	23,612,000	24,173,000	24,638,000	24,984,740
Acres Timber	5,828,000	5,006,310	5,057,000	5,128,000	4,710,000	4,588,914
Other Unimproved	10,346,000	11,183,469	11,890,000	12,559,000	13,354,000	13,767,354
Improved	6,173,000	6,393,422	6,663,000	6,485,000	6,573,000	6,613,617

(From the reports of the State Board of Equalization.)

The total acreage assessed has steadily increased since 1910. Of this total, the acreage listed as "other unimproved lands" has also risen steadily but the acreage listed as timber lands has decreased by over 1,000,000 acres. This rate of shrinkage may be justified by the timber cut of the past decade, but the variation in 1912 is not explainable on such grounds, and the increases in the acreage of timber lands in 1914 and 1916 are significant.

Again, the amount of improved lands listed in 1914 was greater than that listed in any subsequent year. The United States Census Bureau reported 6,373,311 acres of improved land in farms on January 1, 1910, and 7,129,343 acres on January 1, 1920. This is something like the reasonable and natural growth in the acreage of improved lands which one should expect to find in the state during the last decade. The assessed acreage rose rapidly between 1910 and 1914, but in 1916 it suddenly dropped to a level from which it has not yet recovered.

We have here a condition which can have no excuse or explanation except in the decay of effective central administration over the tax

system. The most violent changes in all of these assessments occurred in the days when the old tax commission was going to pieces. The marked aberrations in assessed valuation which accompanied the decline and disruption of the tax commission resulted in great inequalities of tax distribution, some of the effects of which are still evident. This disastrous experience should serve as a warning of the unwisdom of interfering with the orderly procedure of tax administration.

Another by-product of the system of inadequate supervision of assessments is the failure to secure the immediate listing of lands clear listed for patent by the state and the federal government. These lands are taxable to the individual after the order has been given to issue the patent even if the patent is not actually issued for some time thereafter. It has also come to our attention that large tracts of railroad grant lands are not listed for taxation. These lands cannot be listed until they are surveyed, and the survey requires the cooperation of the railroads, the state and the federal government. In the past the railroads were not always willing to have the survey made, since there was no market for the land at the price established by the government. Now that this market exists the roads are anxious to complete the surveys and in some instances the railroad companies have had on deposit for years with the federal treasury, the money to pay for their part of these surveys. The state and federal governments should be urged to hasten the measures necessary to complete these surveys.

We cannot avoid the conclusion, based on a consideration of these figures, that the assessment of real property in the State of Washington has been very inaccurate and unequal. Undoubtedly a considerable quantity of lands in the state has escaped taxation altogether, while the peculiar variations in the assessed valuations of certain classes give additional confirmation of the deduction that very great diversity has prevailed in the basis of assessment in the different counties.

There can be no effective re-adjustment of the tax burden until these fundamental inequalities of assessment and equalization are corrected. Indeed, there can be no accurate determination of the actual extent, or even the existence of these inequalities without such readjustment and correction of the assessments. The first step toward the relief of any taxpayers from a burden which they now regard as unjust, is the thorough-going reform of the assessments.

(b) *Personal Property:* The above conclusions covering the practical operation of the property tax in Washington are further sustained and confirmed when we turn to the results of the taxation of personal property. These results are summarized in the following table:

TABLE IX.
 THE ASSESSMENT OF PERSONAL PROPERTY IN WASHINGTON FOR CERTAIN YEARS.
 (Millions)

	1906	1910	1914	1918	1920	1921
1. Tangibles:						
1. Farm Animals	15.0	19.3	20.3	26.2	25.9	19.2
2. Vehicles	2.1	4.1	6.9	21.7	34.6	38.0
3. Household, Personal, Office, Musical Instruments	11.8	26.2	27.4	25.4	26.8	27.4
4. Tools, Machinery, Steam Vessels.....	10.0	18.7	20.7	22.3	34.3	33.9
5. Materials, Manufactures, Merchandise.....	21.2	33.6	41.2	50.2	82.3	72.4
6. Personal Property of Public Utilities.....	18.6	9.8	15.1	17.9	22.6	23.1
7. All Other Tangibles.....	5.8	11.7	8.4	5.9	7.3	6.1
Total Tangibles	84.5	123.4	140.0	160.6	233.9	220.3
2. Intangibles:						
1. Money and Credits of Bankers, Brokers.....	4.8	12.5	.5	.....	.....	.....
2. Moneys	3.1	1.3	.3	.2	.1	.05
3. Notes, Accounts	3.0	.....	.....	.....	.....	.....
4. Bonds, Stocks, Shares.....	.7	.5	12.0	12.6	14.5	15.8
5. Royalties, Patents .....	.1	1.1	1.3	1.4	.....	.....
Total Intangibles	11.7	15.4	14.5	14.3	14.6	15.9
3. All Other Personalty.....	1.8	3.6	3.0	1.4	1.5	1.8
Total Personal Property.....	97.9	142.4	157.7	185.6	250.0	238.1
Less Exemptions	17.1	30.9	32.8	28.1	.....	.....
Aggregate of Taxable Personal Property.....	80.8	111.5	124.9	157.5	250.0	238.1

NOTE TO TABLE:

The tax law provides a long list of separate items, 51 in 1921, for the listing of personal property. These have been grouped together in the above table. Bank stock was reported with the moneys and credits of bankers until 1912. Beginning with 1914 the item "bonds, stocks and shares" includes bank stocks only.

1. Tangible Personal Property:

It is not possible to check these figures at every point with data obtained from independent sources. The federal census valuation of live stock on farms, as of January 1, 1921, was \$82,292,072. If we assume a full fifty per cent assessment two months later, the assessors were \$15,000,000 below the census valuation.

A comparison of the federal census count of the different classes of farm animals as of January 1, 1920, and the count made by the assessors two months later in the same year is illuminating:

TABLE X.

Class of Animals	Number Reported by Census, Jan. 1, 1920	Number Assessed on March 1, 1920
Horses	314,740	244,711
Mules	24,338	19,321
Cattle	605,553	445,506
Sheep and Goats	654,115	585,543
Hogs	264,747	121,817

There were listed for taxation in 1921, 137,171 automobiles and motor trucks, and 1,389 motorcycles. The Secretary of State issued for the year ending February 29, 1920, 173,934 licenses, and in that part of the next fiscal year ending on September 30, 1920, 188,092. The bulletin of Descriptive and Statistical Information for the year 1921, issued through the office of the Secretary of State, contains the statement that for the year ending December 1, 1921, Washington had 192,484 licensed motor vehicles. These figures do not allow for duplication due to sales and transfers of cars, and the losses through accidents. The Secretary of State estimates that about 30,000 licenses are issued on duplication, but after making this allowance it is evident that there are several thousand motor vehicles untaxed in the state. The average assessed value of automobiles and trucks in 1921 was only \$276.48 and of the motorcycles, \$65.70. Doubtless, many of these untaxed cars escaped through the \$300.00 exemption.

Agricultural implements, farm machinery and harness were listed at \$3,534,116 in 1920, whereas the census bureau reported a total value of \$54,721,377 for the implements and machinery on farms on January 1, 1920.

Similar discrepancies occur in the range of average valuations of farm animals. For example, the assessed values of bulls for breeding purposes were equalized in 1921 at \$18.88 in San Juan County; at \$25.07 in Skagit County; at \$21.97 in Thurston County; and at \$356.00 in King County. We are advised by stock men that the same breed of cattle are found in all of these counties. Again, horses three years and over range from \$16.24 in Thurston County to \$39.75 in King County. Milch cows are assessed at an average of \$21.01 in San Juan County as compared to \$36.50 in Pierce County. The average automobile assessment varies from \$100.40 in San Juan County to \$308.30 in Walla Walla County, and pianos range in assessed value from \$42.77 in Wahkiakum County to \$109.14 in King County.

It is a matter of common knowledge, which has been effectively demonstrated by every day observation as well as by definite tests in other states, that the tangible personal property of farmers is much more effectively and accurately assessed than the personal property of merchants, manufacturers and large corporations generally. We have made no tests of the assessment in this state of the latter classes of personalty, but it is not difficult to imagine the inaccuracies and inequalities which must prevail in the assessment of personal property in urban centers in the light of the conditions which have been found in rural districts.

2. Intangible Personal Property:

The table above shows that there has been no change in the amount of intangibles assessed since 1910, and also the vastly more significant fact that no attempt is made in Washington to reach the great bulk

of the intangible property of the state. This effort was discontinued, and the *general property tax* thereby abandoned, by Chapter 146 of the Laws of 1907, which excluded mortgages, notes, accounts, moneys, certificates of deposit, judgments, state, county, municipal and school district bonds and warrants from the category of property for the purpose of taxation.

This statute was tested in the courts and upheld by the Supreme Court except in so far as it applied to moneys which, in the language of the decision, "possesses such value by way of immediate purchasing or exchange powers as in effect robs it of a mere representative character and clothes it with the dignity of property having intrinsic value." (*State ex rel. Wolfe vs. Parmenter*, 50 Wash. 164.)

Although this decision became, by virtue of the authority which issued it, an integral part of the Washington tax law, as a modifying interpretation of the statute, we are unable to concede the logic of the argument or the conclusion to which it led. This argument is as follows:

- (1) The constitution, in prescribing uniformity of taxation, does not contemplate double taxation.
- (2) The taxation of property and of credits is double taxation.
- (3) Credits are therefore not property for purposes of taxation.

There are two uniformity clauses in the constitution: one of these requires that all property not specifically exempted shall be taxed in proportion to its value, and the other is to the effect that every person and corporation shall pay a tax in proportion to the value of his, her or its property. These clauses embody different concepts of uniformity and they are not always wholly consistent. The court chose the first rule of uniformity, and proceeded to hold that this rule was satisfied if all property were taxed once. In other words, it was held that the constitution did not demand, and certainly should not be construed so as to cause double taxation. The court did not recognize that so-called double taxation, if it be universal, involves no injustice. It did recognize that the evils of the general property tax arose from the fact that universal taxation of property and credits at a uniform rate was not possible, and that there was widespread evasion of such taxation. The conclusion which it attempted to draw from this argument is a complete *non-sequitur*, for it is, in effect, the conclusion that credits are not property for purposes of taxation.

The decision brushes aside, as of no consequence, the constitutional authorization to deduct debts from credits. If the framers of this document meant that credits were not property, this is an empty grant, and the conception of property, adopted by the court, imputes to those who drafted the constitution a deliberate inclusion of empty words in the organic law.

We have here an instance of the folly of beating the devil about the bush. Both the legislature and the court wanted to recognize and

deal with the taxation problem of the evasion of intangibles under the high tax rates of the general property tax. The constitutional rule of uniformity stood in the way, and the court, in order to effect a solution, comes to the very strained—and to our minds illogical conclusion that credits are not property. The minority opinion very properly criticizes this conclusion as a violation of the lawyer's own conception of property.

But in seizing this horn of the constitutional dilemma of uniformity, the court has entirely overlooked the other provision which calls for uniformity among persons and corporations in proportion to property. We do not criticize the learned court for its choice of alternatives, but in our opinion equality of tax burden among persons is quite as important as equality to property, if not more so. It is obvious that reconciliation of these two rules is possible only when there is one universal tax jurisdiction, with no foreign corporations doing business in the state and no individual citizens owning securities based on foreign property. Such a condition obviously does not and cannot exist today. Some persons in this state may have all of their property in the form of mortgages on foreign real estate, or of the stock and bonds of corporations which do no business in this state. Many other citizens have a part of their possessions in such forms. The restriction of the tax system to the taxable physical property located within this state is therefore a violation of the constitutional rule of uniformity as among persons and corporations, for the individual whose wealth is based on physical property located outside the state is to that extent exempted from state and local taxation, and is therefore being supplied gratuitously with all the benefits and services of government at the expense of the owners of real and tangible personal property. In seeking to avoid double taxation of this property the Supreme Court has impaled the state upon the other horn of the dilemma, inequality of personal taxation, and from this there may be no escape but by a constitutional amendment.

In another respect this decision that credits are not property, produces an inconsistency in the tax laws. Credits are not property for purposes of the property tax. Yet the inheritance tax applies to "all property within the jurisdiction of this state, tangible and intangible." There may be adequate legal grounds for this inconsistency but it seems to us extremely illogical to use different definitions of property in two tax laws. Doubtless the laxity with which the present inheritance tax law is enforced has prevented the question from arising in the courts. It appears to us, as laymen, to contain serious possibilities for the scope of the inheritance tax should such a test suit be brought.

The exception made with respect to money in this decision has been nullified by popular opinion, for in 1921 there was returned for taxation

as "money" the insignificant total for the whole state of \$82,426, and at no time in the past seven years has the amount been above \$300,000.

The Act of 1907 does not mention stocks and bonds, yet this class of property has been exempted by popular opinion, and in recent years the assessment lists have not even contained a heading under which they could be listed. In view of the above decision respecting credits, this is doubtless a wise course, although it is impossible to concede that a share of stock is in any real sense a credit.

We concede without argument the fruitlessness of the attempt to tax intangible property under the general property tax, and *it is farthest from our intention to be understood as believing in or as recommending in this discussion that the State of Washington should revert to the universally discredited plan of the general property tax whereby all intangibles are made taxable at high local rates.* We do believe, however, that the state would have been in a vastly better position if the Supreme Court had denied the validity of the Act of 1907 and had put squarely up to the people at that time the problem of so amending the constitution as to permit the development of a more flexible system of taxation. The legislature declared in the act which provided for this committee that real estate and tangible personal property were bearing the entire burden of taxation. If this be true, it is a situation that has been created by the acts of past legislatures, and by decision of the highest court, in the policy of complete exemption of intangible property from the property tax with no thought or suggestion of alternative means of reaching the owners of these classes of property, and in disregard of the constitutional rule of uniformity of tax burden among persons. In a subsequent part of this report we shall discuss further some alternative step to be considered as the means of remedying this situation.

3. Taxes on Corporations:

We pass over without detailed comment the filing fees for the privilege of securing a charter of incorporation from the state and the annual license fee, exacted from all corporations, for the privilege of doing business in the state. These license taxes are administered by the secretary of state, and we find no evidence to indicate that they are not well administered.

4. Public Utilities:

The facts regarding the assessed valuations of the different classes of public utilities, which are under the original jurisdiction of the state equalization committee sitting as a state board of assessment, are presented in the following table:

TABLE XI.

	STEAM RAILROADS		ELECTRIC RAILWAYS		TELEGRAPH	
	Actual	Equalized	Actual	Equalized	Actual	Equalized
1910.....	257,405,646	100,157,754	37,656,303	15,878,348	767,770	298,845
1912.....	342,515,593	135,522,077	23,246,683	9,909,343	887,623	357,955
1914.....	342,157,237	137,538,331	49,211,280	21,565,119	887,786	362,939
1916.....	341,917,939	138,652,569	45,462,660	19,446,483	910,984	369,580
1918.....	340,502,230	138,355,179	43,718,875	18,792,098	767,332	310,774
1921.....	337,651,363	136,165,376	21,978,145	9,640,632	814,977	329,799

‡Puget Sound Traction, Light & Power Co. (16,636,000
 acquired by City of Seattle— (7,675,500
 Western Washington Power Co. acquired (39,000
 by City of Seattle— (17,945

As a summary of public utility assessments this table is incomplete in that it does not include the telephone companies nor the electric light and power properties. These are assessed by the county assessors. This is a curious and hardly justifiable anomaly, for it is inconceivable that the property of a telephone company which extends over several counties can be adequately valued for taxation in piecemeal fashion by several different county assessors. It is equally inconceivable that inter-county or inter-state hydroelectric properties could be properly assessed by the county assessors.

A fundamental principle of efficient taxation is that large corporate properties should be assessed as units, on the basis of their value as going concerns. Obviously it is quite impossible to apply this principle if the assessment is made locally in the different counties by an official who can legally take into account simply the physical property located within his own jurisdiction, and who ordinarily lacks the facilities, time and disposition to make a complete study of the broader elements of the problem.

The figures given above show for certain years the actual and the equalized assessed valuations placed on the steam railroads, the electric railways, and the telegraph companies. These assessments were made by the state tax commission to 1916 and thereafter by the state board of equalization. A marked increase was made in the actual assessed value of operating property in 1912, but this aggregate has declined since that time, although the equalized assessed value has slowly risen on account of the changes in the ratios at which other property is alleged to have been assessed in the different counties. This use of the ratios alone gives a very great importance to their accuracy, and we shall present later our reasons for questioning their reliability.

On the face of these valuations it appears that the state assessment of railroads in recent years has become a rather formal matter. The total equalized assessment of property other than steam railroads in the state has risen from \$869,564,174 in 1912 to \$1,041,073,664 in 1921—an increase of 19.7%, but during this period there has been only about

half a million dollars added to the equalized valuation of the railroad property, or less than one-half of one per cent.

The method of railroad assessment employed by the state board of equalization in recent years has been in part responsible for this situation.

The obvious inference to be drawn from these figures, taking into account the fact that the aggregate valuation of all other property has increased by almost 20% since 1912, while the total railroad assessment has been stationary, is that there has apparently been a transfer to property in general of a part of the tax load which should have been borne by railroad property. The ratio of total taxes borne by railroad property, as shown in Table V, on page 28 above, also indicates a gradual diminution of relative tax burden since 1914.

This apparent shifting of taxes from the railroads to other property is neutralized in some degree at least by the differences between the actual basis of assessment for railroad and other property. This whole matter is shrouded in mystery, so that in reality no one in the state has any adequate, accurate knowledge of the relative tax burden now being borne by the railroads and by other classes of property. The testimony from both sides is of such a partisan nature as to render it worthless in passing upon the merits of the issue, and the problem can never be satisfactorily solved until the control of both the railroad and the other property assessments are put under the control of a competent, impartial state tax commission.

A comparison of the railroad assessments in greater detail reveals the further fact that the tax burden on these properties has not been equitably distributed among the different roads themselves. This is shown by the wide variation in the actual value per mile of main line for the different roads, as determined by the state board of equalization. We present below these actual values per mile for 1912, 1916, and 1921:

TABLE XII.
ACTUAL VALUATIONS PER MILE ON MAIN LINES OF RAILROADS.

	1912	1916	1921
C. M. & St. P.	\$84,185	\$77,799	\$73,806
Great Northern	96,159	88,266	88,432
Northern Pacific	84,050	81,745	81,682
Oregon-Washington	72,086	84,272	83,565
Spokane, P. & S.	106,043	95,911	89,784

In 1912 these actual values per mile ranged from \$72,086 for the main line of the Oregon-Washington, to \$106,043 for the Spokane, Portland and Seattle. During the intervening years to 1921 there has been a tendency toward a more equal valuation, but in 1921 these values appear to be unnecessarily diverse. We do not mean to attach undue importance to this test, but it does appear to us that for the principal

railroads of the state, with substantially similar conditions of construction and operation, and with fairly equal terminal facilities in the leading cities of the state, that the actual values per mile should be reasonably close together for the different roads.

It has been urged in partial extenuation for the leniency displayed toward the railroads that they have faced a steadily increasing competition in both passenger and freight business from the privately owned automobiles and motor truck lines which operate over the highways.

This is a serious situation, if true. The amazing growth of the automobile industry, and the very rapid diffusion of this means of transportation among the people has undoubtedly meant heavy inroads into the local passenger business of the railways. In recent years the growth of motor bus transportation has cut still further into the railway's local passenger business. A similar development of motor truck transportation threatens the local freight business of the railroads. To the extent that these recent transportation developments have actually reduced the earnings of the steam railroads, and thus lessened the value of their property, due account should be taken of them in determining the taxable value of these properties. But if the growth of motor vehicles and motor transportation has attained this significance in the state, it is clear that we have here a source of revenue that under existing tax laws is not receiving the attention that it should receive. We shall defer to a later section of the report the more complete discussion of the taxation of motor vehicles, but it is clear that the loss in taxes due to the failure of the railroad assessments to advance must be borne elsewhere. The methods used in the railroad assessment have been shown to be of questionable efficiency. To the degree, however, in which the above considerations have weight, it is also perfectly evident that this loss in tax revenue from the railroads should be counterbalanced by larger revenues from the agencies which have been responsible for this decline.

5. Electric Railways:

The tax law relating to electric railways is also anomalous, in that the state assessment is confined to the operating property used for transportation purposes, while all properties used for light and power purposes are in the jurisdiction of the county assessors. This rule necessitates in some cases a purely arbitrary division of the property, and is a violation of the fundamental principle of the unit rule of assessment.

The peak valuations, both actual and equalized, of the electric railways, were reached in 1914. The great drop in these figures in 1921 was due to the acquisition of the properties of the Puget Sound Traction, Light & Power Company and the Western Washington Power Company by the city of Seattle, and the consequent withdrawal of these properties from the tax rolls. We have no desire at this point to enter into a discussion of the subject of municipal ownership of public utilities, or

of the general policy of the extension of the commercial activities of our cities, but we cannot refrain from reference to the significance of this policy from the standpoint of the tax rolls and the tax rate. For example, the acquisition by the city of Seattle of the street railway properties above referred to has meant the withdrawal of \$7,675,000 from the local tax duplicate. The taxes formerly paid on this valuation have been shifted to the other property, including real estate. *The very least that can be urged upon these communities which desire to embark upon such experiments, is that these commercial undertakings be operated along such lines and in accordance with such principles of policy as to make them self-sustaining and not a burden to the remainder of the property of the community by the levy of taxes to cover deficits.*

6. Telegraph Companies:

The amount of telegraph company property in the state is relatively negligible, as is shown by the figures above. It would appear to be unwise to continue the taxation of the telegraph companies on an ad valorem basis, and it is certainly unwise to continue the policy of distributing the valuations to the various local districts. The taxes paid by the telegraph companies are thus frittered away. They really should be concentrated into some state fund where they will really count, and in view of the relatively small amount of property involved, it would probably be wise to substitute an earnings tax for the property tax, as has already been done in the case of the express and car companies.

7. Private Corporations:

The private corporation is taxed on its real and personal property as assessed by the county assessor, in the same manner as are individual property owners. The only point at which the corporation is treated differently, is in the fees charged for incorporation and the license taxes levied for the privilege of doing business in the state.

In most cases this parity of treatment in taxation is wise and sound. Many of the incorporated concerns in this state possess only a small capital, and they meet the competition of individuals and partnerships in most lines of business activity. The license tax is not a discrimination against the corporation but only a very moderate charge for the privilege of limited liability and other advantages which accrue in conducting a business under the corporate form.

There is a limited number of concerns, however, for which the property tax as it is understood in Washington, is hardly an adequate system of taxation. We refer to those corporations which, by reason of their possession of valuable natural resources, or of superior advantages in production based on location, patents, etc., are earning a return in excess of the normal return on capital under competitive conditions. The tangible assets of such concerns, including their real estate, plant and inventory, are a very inadequate basis for their taxation. There is a surplus of ability to pay taxes here which is not reflected in the

assessed valuation of the physical property, and the policy of exempting their stocks and bonds to the owners merely emphasizes this disparity. We are offering no recommendation on this point since we have not attempted to ascertain the extent to which such a situation normally exists among the corporations of the state. In the preparation of a model program of state taxation, this possible source of revenue should not be overlooked. It can readily be reached by extending the annual franchise tax to cover the corporate excess when this exists, or by means of a business tax on corporate net incomes. Use of this probably would be conditioned upon an amendment to the constitution.

8. Banks:

The taxation of banks by any state is subject to certain limitations which have been imposed by the federal government upon the taxation of national banks. No state may tax national banks except in accordance with the general conditions laid down by Congress, and no state will discriminate against its own banks by subjecting them to higher taxes than are imposed on the national banks.

The Washington method of bank taxation is to assess all bank shares at their full and fair value in money, and to list their stock for taxation at 50% of this valuation, first deducting therefrom the assessed value of the real estate belonging to the bank. The practice for years has been to take the book value of the bank's shares as the "full and fair value" of these shares. This is a valuation which can be actually determined from the bank statements, so that if this rule is consistently and generally followed bank stocks are the best-assessed class of property in the state.

The problem of bank taxation in its relation to the treatment of other classes of intangibles, such as stocks and bonds, mortgages and credits, has been given a turn by recent federal Supreme Court decisions of which the governor and the legislature should be made aware. The states have proceeded on the assumption that they were complying with the federal statute (U. S. Rev. St., Sec. 5219) if they provided for the taxation of national and state banks and loan and trust companies on the same basis. But in June, 1921, the United States Supreme Court held that in providing for a low flat tax on intangibles in the hands of individuals, the State of Virginia was actually discriminating against national bank stock in favor of this "other moneyed capital" in the hands of individuals. (*Merchants National Bank vs. City of Richmond.*) This decision endangers the classified property taxes in a number of states, and in New York, where intangibles have been exempted since the enactment of the personal income tax law of 1919, the national banks have brought suit for the recovery of some \$12,000,000 of taxes paid on bank stocks in the last two years.

Thus far, of course, nothing has happened in Washington to disturb the established situation, and an amendment is pending before

the Congressional Committee on Banking and Currency to correct the effects of the Richmond decision. In the meantime, it is quite possible that this decision would afford basis for a contention on the part of the national banks of this state that the complete exemption by this state of all intangibles in the hands of individuals was an unwarranted discrimination against their stocks. The situation contains sufficiently serious possibilities to warrant our recommendation to the governor and the legislature that steps be taken to urge upon the state's members of both houses of Congress that favorable action be taken upon the proposed amendment to Section 5219 of the Federal Statutes.

DEFECTS OF THE WASHINGTON SYSTEM OF TAX ADMINISTRATION.

We have dwelt at length upon the structure and operation of the Washington tax system because we believe that this system has developed certain very serious defects which must be corrected if the tax burden is to be equally distributed. *These defects are chiefly administrative in character, that is, they are defects in the operation and administration of the tax laws rather than in these laws themselves.*

The first and most serious defect which we would emphasize is the lack of adequate central control over the assessment and equalization of property. This state was one of the pioneers in the introduction of centralized tax administration, since its state tax commission of 1906 antedated the similar commissions in Minnesota, Kansas, Ohio, Oregon, California and various other states. Unfortunately, this commission was not given at the outset sufficiently comprehensive powers of control and supervision over the assessment and equalization of property; and still more unfortunately, the excellent beginning in modern tax administration which was made in the creation of the state tax commission was undone when the law creating this body was repealed in 1917. The office of state tax commissioner was created at this time and presumably this official was given the supervisory powers formerly exercised by the tax commission, but the appropriation was materially reduced, and the loss in prestige which came with the change effectively negated any real influence which the tax commission had built up. The same supervisory powers are now vested in the director of taxation and examination, but this official has even less real authority in tax administration than his predecessors enjoyed.

As a matter of fact, the task of thorough, efficient and effective administration of the tax system in the State of Washington, with its immense area and varied interests, is too large to be handled by a single commissioner, *and our central recommendation looking toward the reform of the present chaotic condition of assessments is the establishment of a tax commission of three members, to be appointed by the governor for terms of not less than six years and at salaries sufficiently large to attract high grade men to this office. The principal basis of*

these appointments should be fitness, as evidenced by the knowledge of taxation, and administrative capacity of the appointees.

Such a commission should be given complete supervisory control over the whole tax system. By this we mean that it should have the power to compel a proper local assessment and equalization of property for taxation, and to this end it should be empowered, when necessary, to order a reassessment of any or all classes of property in any taxing district, either by the regularly constituted taxing officials or by special assessors chosen for the purpose. With these drastic powers of control should go the usual supervisory powers which are now vested in the tax commission of such states as Wisconsin and Minnesota. In addition, this commission should be given the full powers of equalization and of corporate assessment now exercised by the state equalization committee. The present ex officio board should be abolished.

Our subsequent criticisms of the operation of the Washington tax system flow from this central defect in the administrative organization and procedure.

First, we have found that there is no adequate means of checking and testing the assessment of property. The state board of equalization has for years prepared a table of ratios of assessed to true value, but the methods employed in the construction of these equalizing ratios leave the most serious doubts as to their accuracy. In 1910 the tax commission described its system of compiling these ratios as follows:

"The Tax Commission first caused a list of transfers to be made in each county, describing the property conveyed therein during the preceding twelve months, giving the names of grantor and grantee and showing the consideration. These lists formed the basis for the interrogation of witnesses examined concerning the value of property. Sessions of the Board were held in each county, and all told eight hundred and eighty-five witnesses were examined under oath as to the actual price paid for property changing hands during the preceding twelve months. Stenographic records were made of this testimony, from which lists describing the property concerning which testimony was taken were made and forwarded to the county auditors, who were required to certify the assessed value of each description as equalized by county boards. Upon the return of these lists the actual values as shown by sworn testimony were extended on them and the ratio of assessed to actual values was computed."

(1910 Report, pp. 10-11.)

This plan of collecting the material on which to base ratio for each county was defective for several reasons:

First—the number of transactions covered and of persons interviewed was too small. Only 885 persons in the whole state were questioned in 1910 and an examination of the stenographic reports of these hearings showed that some of these witnesses had no definite evidence of actual transactions in real estate. Second—there has been a tendency toward a professional witness list. The same persons appeared year after year. Finally, there was inadequate precaution against the inclusion of improper evidence. (See Lutz, "The State Tax Commission," pp. 356-357.)

The preparation of the ratios has been given even less attention in recent years. The director of taxation is supposed to require of various officials the compilation of data on the basis of which accurate ratios can be compiled. It would be impossible to secure thoroughly reliable ratios by such means, even with due diligence on the part of these officials, unless there were provided the necessary equipment and technical staff for the purpose. In Wisconsin, where the technique of the preparation of equalization ratios has reached its highest stage, a special statistical staff is employed in the field and office work for the year round, and every transaction that enters into the calculation is scrutinized and checked with the greatest care as precaution against error. Such a staff costs Wisconsin a few thousand dollars annually, but it accomplishes a very equitable distribution of the burden of state taxes, and the evidence thus collected is of the greatest service in the supervision which the Wisconsin commission exercises over the local assessors.

The problem of the equalizing ratios is serious in this state, for several reasons. In the first place the law says explicitly that property shall be assessed at 50% of its true value. It is not possible that all of the assessors should attain this level year after year, but it is of the utmost importance that they be advised and compelled to strive earnestly toward this end. The evidence concerning property values which a well equipped statistical staff would collect under the direction of an intelligent and active tax commission, would be of great value to local assessors in making the original assessment, and would be a strong factor in securing an original assessment of all property at the legal basis. Ignorance of relative values and of changing values in different sections in a city or county is one important reason for inequitable assessments. When we undertake to correct such assessments by means of a worthless ratio, it is the blind leading the blind into the ditch.

The attitude appears to be general, both among officials and taxpayers, that the ratio is the important thing, and that equalization by this ratio condones any laxity regarding the legal basis of the assessment. Such an attitude is very demoralizing to efficiency in assessments. The attention of taxing officials and citizens should be constantly focused on the legal basis of valuations, and in order to accomplish this there must be greater attention given to the actual 100% value, for it is a truism that 50% of true value cannot be determined for assessment purposes until the true 100% value has been determined. The assessor should be required actually to ascertain and to set down on the assessment rolls the full 100% valuation of all property. The calculation of the 50% basis then becomes a simple clerical matter, but its simplicity should not be allowed to obscure its importance.

Secondly, the accuracy of the equalizing ratios is of serious import because of their use in determining the basis upon which the state

direct taxes are levied. This direct state levy is now so large as to involve the possibility of serious inequalities of tax burden among counties unless the basis of apportionment is ascertained with the utmost care. Indeed there is every incentive for the local assessors and the property owners to undervalue property, since the reward is the escape of a certain proportion of the state tax. We have no doubt that there is a tendency toward a competitive under-valuation among counties, and we have already indicated our reasons for believing that the ratios do not accurately reflect the true relation of assessed values over the state.

Thirdly, these ratios are used to equalize the valuations of steam and electric railroad properties in the different counties. Clearly the distribution of this aggregate valuation is of great importance to the different counties. If the ratio for a given county is in error by only 5%, this county will deprive the others of their fair proportion of these corporation taxes.

In view of these and other defects of the process of equalization, we are led to conclude that this duty is too important to be entrusted to a board composed of state officials serving in an ex officio capacity. These officials have their own duties to perform and their only opportunity of studying the assessment situation comes in the three weeks period during which they are in session as a state board of equalization. The task of equalizing assessments is too difficult and important to be left to any ex officio board, however good its intentions. This work should be transferred entirely to the state tax commission which we have recommended.

At the same time the proposed state tax commission's power of equalization should be broadened so as to permit of searching inquiry into the work of the local boards of equalization. The county tax burden is now sufficiently high in many cases to give rise to some competitive under-valuations in the different taxing districts. The cities and the rural districts have the same incentive to avoid the county taxes that the counties have to avoid the state tax. While it may be urged that a bad assessment cannot be entirely corrected by equalization, yet it is true that an efficient equalization is vastly better than a haphazard one and the power of correction, coupled with the authority of the tax commission to order or to make a new assessment places the incentive upon strict compliance with the law rather than upon easy going laxity.

In view of the many complications which inevitably arise under any system of assessment on a percentage of full value, we recommend the amendment of the tax laws to require the assessment of all property at full value. Such a change would be looked upon by many as revolutionary, and its successful adoption would require very careful safeguards in order to inspire full public confidence.

In the first place this transition could only be effected under the control and direction of such a tax commission as we have recommended. *Secondly, it should be accomplished by adequate statutory safeguards against local extravagance as the result of the enlarged basis of assessment.* This safeguard could be provided by enacting that for the first year of such increased assessments the amounts levied in any district shall not exceed those raised in the previous year by the higher millage rates on the lower assessed values; and for the second year an increase not in excess of 5% over the amount raised in the last year of the old system. After the transition had been effected such restrictions could be repealed, and especially so if, in the meantime, a system of budgetary control had been set up in accordance with the suggestions offered in this report.

The system of assessment at full value presents numerous advantages. It is vastly more simple in administration since there is only one objective upon which the attention of officials and taxpayers is fastened.

Secondly, the effect of inequalities of assessment is diminished, for the change to full value will in itself compel greater precision in appraisal, and the taxpayers, as well as the officials, will be more alert to the accuracy of the results.

Thirdly, such a change will be of great significance in furthering the efforts of the state to attract outside capital for investment. There can be no question that the present high millage rates are an obstacle to the outside investor, who sees the tax rates as a certainty, while the actual basis on which he as a foreign investor is taxed, is a matter of great uncertainty.

Finally, the assessment at full value is the only means by which the state can give assurance to the taxpayers that the present constitutional rule of uniformity is being observed and applied.

For all of these reasons we recommend, as a part of the reconstruction of the state's system of taxation, the introduction and diligent enforcement of the full value basis of assessment of all property subject to taxation.

The policy of effectual centralization of tax administration which we are here recommending should be extended and completed by transferring to the tax commission the administration of the inheritance tax and the duty of assessing telephone companies and all other public utilities.

We have already discussed the reasons for the latter recommendation. The inheritance tax belongs under the jurisdiction of the tax commission because of the importance of the appraisal of estates and the other administrative features of the tax. The reasons for the transfer of this tax to the attorney general's office by Ch. 7 of the Laws of 1921 are familiar to the public. Without minimizing the legal side of the problem, we are disposed to hold that the purely

administrative features of inheritance taxation are of such importance as to justify the return of this tax to the jurisdiction of the proposed tax commission. The yield of this tax will depend upon the completeness and accuracy with which the inventory and appraisal of estates are conducted, and the special taxation authorities of the state should be given full powers of investigation and review of all such proceedings. The ordinary legal routine may be handled as it is today, by counsel assigned for the purpose from the attorney general's office, or by the commission's own legal counsel.

CHAPTER IV.

SCHOOL FINANCES IN WASHINGTON.

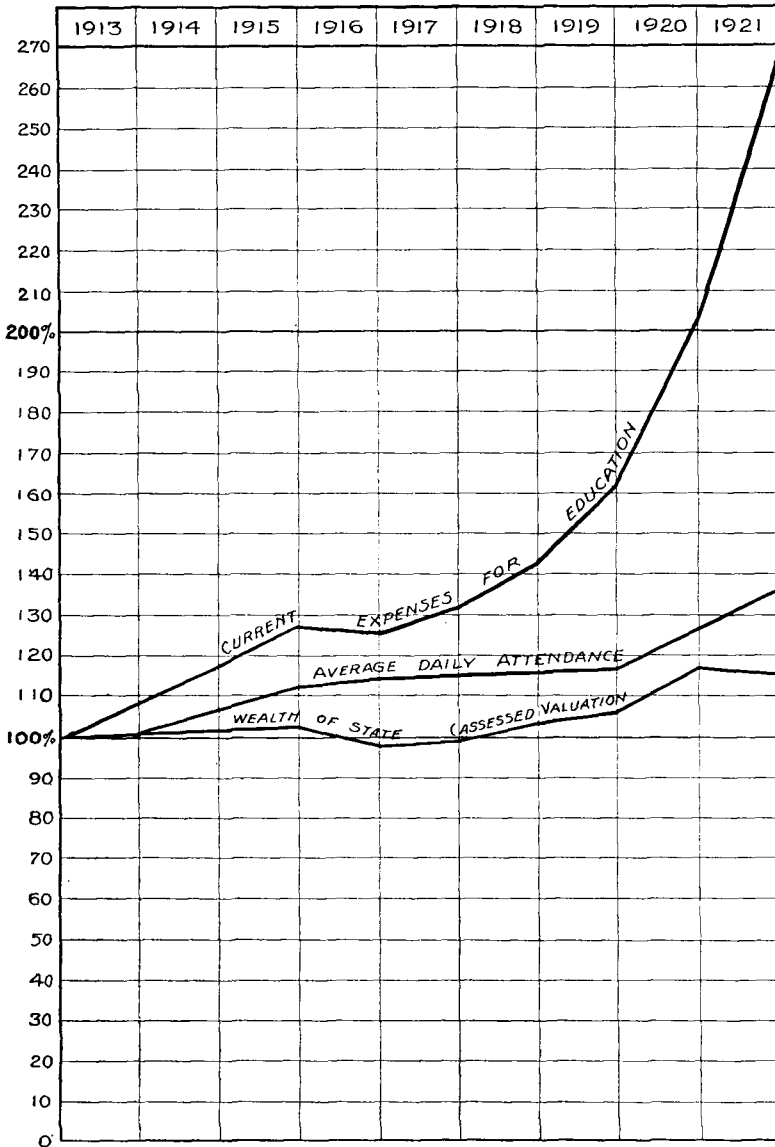
Article IX, Sec. 1, of the constitution of the State of Washington, is quoted below. This is the only state constitution using this language:

"State's Duty to Provide for Education of Children. It is the paramount duty of the state to make ample provision for the education of all children residing within its borders, without distinction or preference on account of race, color, caste, or sex."

All educational authorities agree that the State of Washington has a school system notable both for efficiency and for cost. In 1910 it was ranked by an expert of the Russell Sage Foundation as standing at the head of the states of the Union on the basis of school attendance and expenditure of money per school child.

Few states spend so much for education in proportion to their wealth and population as does Washington. For the last year of record, 1921, the state spent \$28,493,158 for its grade schools and high schools, and \$2,778,000 for its higher educational institutions, comprising the state university, the state college, and the normal schools. This does not include the amount expended on schools for defective, or on reform schools. The average total cost of education in the common schools in Washington for 1921 was \$123.14. For the year 1918, the latest date for which figures are available for purposes of comparison, the average cost per pupil attending public schools was: \$78.31 in Washington; \$60.99 in Massachusetts; \$12.32 in Mississippi, the lowest in the Union; and \$49.12 throughout the United States.

The records of the state superintendent show that the current cost of education per school child has increased from \$49.52 in 1912 to \$97.85 in 1921. The accompanying graph represents the annual increase in current expenses for education compared with the average daily attendance and the wealth of the state.



The sources of support for the state system of education are four-fold: (a) invested funds, (b) state taxation, (c) county taxation, (d) district taxation. To these sources should be added contributions made by the federal government to the state college for the encouragement of agriculture and to the state department of education for vocational training.

(a) The state possesses \$17,260,771 invested funds for educational purposes, \$208,150 of which are designed for the state university, \$1,182,195 for the state college, and \$15,870,926 for the common schools. The income from these several sources of revenue should be added to the income derived from taxation.

(b) State taxes for education in 1921 amounted to \$9,087,147.91, representing a levy of 5.34 mills, or \$20 per school child in accordance with legislation passed by the extra session of the legislature in 1920.

The amount of the contribution which the state should make to the cost of educating the individual child is a matter of judgment on which opinions differ greatly. In 1895 under the so-called "Bare Foot School Boy Law," the state for the first time recognized its responsibility for aiding elementary education by appropriating \$6 per school child. This was increased to \$8 per school child in 1898, and to \$10 in 1901. The total amount so expended advanced from \$646,600 in 1895 to \$1,300,902 in 1901. The state's contribution was raised to \$20 per school child in 1920 and the amount of state aid in that year was \$5,730,834. At the same time the total cost of education in the state swelled to \$20,789,846 in 1920 and to \$28,553,333 in 1921—an indication that the districts as well as the state had increased their expenditures.

The facts do not seem to justify the expectation that if the state should give more, the districts will give less.

(c) The amount assigned to the counties, \$10 per school child, has not varied in recent years and does not seem to be an occasion for dispute. The total contributed by the counties in 1921 was \$3,730,723.31.

(d) There are 2,595 school districts in the state which raise by local levy the balance necessary for education in the districts in addition to the amount contributed by the state and the county. These districts vary in wealth, in population, and in educational policy. They are restricted by law to a levy of twenty mills. The district levies for 1921 amounted to \$16,289,382.24, which was 55.96% of the total amount raised by taxation for educational purposes.

That education in Washington reaches adequately the majority of the children is shown by the following facts: 147,652 children attended school for 181 days or over, in 1921; 139,693 attended school for 161 days or over, but less than 181 days. Only 7,768 had less than 160 days' schooling. These last were pupils in remote and poor districts, where adequate educational facilities could not be furnished. In some of these cases relief can best be afforded by direct appropriation of the state board of education, and in other cases consolidation of adjoining districts will provide a more efficient education for a longer period and will reduce the cost per school child in the districts which are consolidated.

When your committee compares the cost of education in Washington with that in other states, bearing in mind their wealth and their population, and when it discovers the steady increase in the cost of education

within this state without reference to the state's population or wealth, we feel compelled to urge the suspension of further increase of taxation for school purposes until the taxable property of the state and its population have relatively increased.

There is no question that some school districts are not now getting the educational requirements that it is the state's duty to provide, even though the people of those school districts are levying as high as twenty-eight mills upon themselves to give this education. It is also true that there are other school districts in the state in which the number of scholars may be materially less—or more, it makes no difference—but in which the assessed value of the property of the district is so great that they have more money than they know what to do with and it is often spent on high class gymnasiums, teachers cottages and apartment houses, water systems for rural communities, playgrounds at a distance from the school grounds, and in other unusual ways. These expenditures must be checked, but we submit that they cannot be checked by continuing the present system.

The whole school fabric is working upside down. The state should levy and collect taxes from the larger districts and be able to use the money in the poor districts without being required to pay to the rich districts the same proportion per census child as is paid to the poor districts. The only way this can be accomplished is by changing our system so that the state will prescribe a minimum of educational requirements and require every school district to levy up to a prescribed levy. If any district after levying the maximum amount in order to meet this requirement falls short of the amount necessary, the difference should be made up by levying a general tax for that purpose. In this way the state will not be paying school money to any district that has sufficient property within its borders to carry its own burden. There could be no objection then to one district having greater educational advantages than another and there would be no districts in which the scholars are not having a full nine months school term with competent teachers. Then if the people in the so-called rich districts saw fit to burden themselves for additional frills nobody should complain as the state would be losing nothing and the districts themselves would be carrying the load.

CHAPTER V.

OTHER SUGGESTIONS AND RECOMMENDATIONS.

We here present our comments, suggestions and recommendations on certain specific proposals which we have studied, or which have been urged by persons who have appeared at our hearings.

1. BUDGET:

We have referred frequently in the course of our discussion of the state's financial problem, to the importance of a comprehensive control of revenues and expenditures. This control is fundamental to economy and efficiency in public administration, for it is evident that there can be neither efficiency nor economy in public affairs while there is lack of coordination between the revenue-raising and the appropriating agencies of government.

This coordination of our financial system can only be effected by means of a budget system, by which there will be brought together in a comprehensive plan, the estimates of revenues and expenditures for the fiscal period, with adequate authority to control these estimates and the financial operations of departments in the interest of the general public. In the course of our public hearings over the state, no single topic was referred to as frequently or with such approval as the subject of the budget.

Those who advocate the introduction of a budget system as a measure for the promotion of greater efficiency in public affairs are sometimes inclined to think of a single budget which will give control over local as well as over state expenditures. This is obviously impossible. We are obliged, therefore, to distinguish in our discussion and in our proposals between the state budget and the means of budgetary control over the thousands of local spending units.

The State Budget:

The development of budget legislation for state governments has gone on very rapidly in recent years, until today almost all of the states have taken some action looking toward more business-like control. Twenty-four states have so-called executive budget laws, under which the governor is responsible for the initial budget plan, and twenty-one states have provided budget making authorities of the board or commission type. Through the administrative code of 1921, Washington has taken the first necessary step toward a budget system in providing the administrative coordination of the state departments and the means of compiling the information relative to expenditures upon which the budget must be based.

On this foundation it will be a relatively simple matter to build a satisfactory budget system for the state government. We do not consider it necessary to elaborate the arguments in favor of a state budget,

nor the details of the plan. We recommend the introduction of the executive type of budget, whereby the responsibility for the budget is placed upon the shoulders of the executive, who should compile, for submission to the legislature, the estimates for the various departments of the state government.

The executive budget is to be preferred to the board or commission type, first because the executive has the final responsibility for the operation of the state government and he should bear as well the responsibility for its finances; second, having this responsibility, the executive should possess adequate and final authority to control the details of the financial plan; and third, because the people will hold the executive responsible for the results, whatever the system of planning the budget.

The crucial feature of any budget is the status which this budget has before the legislature. In England, where budget-making has attained its highest degree of perfection, the budget as submitted becomes a bill for the consideration of the House of Commons. Proposed expenditures may be reduced or eliminated, but may not be increased. The recent budget law of Maryland provides:

"Neither House shall consider other appropriations until the budget bill has been finally acted upon by both houses and no such other appropriation shall be valid except in accordance with the provisions following:

"(1) Every such appropriation shall be embodied in a separate bill, limited to some single work, object or purpose therein stated, and called therein a supplementary appropriation bill, which supplementary appropriation bill shall provide the revenue necessary to pay the appropriation thereby made, by a tax, direct or indirect, to be laid and collected as shall be directed in said bill."

The above limitation does not apply to an appropriation to provide for the payment of any obligation of the state. The general assembly may amend the bill by increasing or diminishing the items therein relating to the general assembly and by increasing the items therein relating to the judiciary but except as hereinbefore specified may not alter the said bill except to strike out or reduce items therein, provided that the salary or compensation for any public officer shall not be decreased during his term of office.

The Nebraska budget law of 1921 contains the following section relative to the same matter:

"Sec. 13. *Appropriation bills submitted to legislature.* The Governor shall also submit to the legislature at the same time he submits the budget, copies of a tentative bill for all proposed appropriations of the budget clearly itemized and properly classified, for the ensuing appropriation period, and no appropriation shall be made in excess of the items and recommendations contained in the budget unless by a three-fifths vote of each House of the Legislature, but any item of recommendation therein contained may be rejected or decreased in amount."

The details of financial control are being rapidly standardized in those states which have already introduced the budget, and we may pass over these matters here.

The introduction of the budget would possibly necessitate some changes in the manner and time of making the state levies, but those matters could readily be adjusted. Today the state equalization committee decides on the state levies *in advance* of the biennial sessions of the legislature, and in advance, therefore, of the appropriations which will be made. Under the budget system there can and should be a closer coordination of levies and appropriations, since the one measure will carry both the appropriation and the tax rates or levies necessary to meet the proposed expenditures. It is essential in any budget scheme that the audit be made independently of the agencies which prepare and administer the budget. The state auditor is a constitutional officer, and his authority should be extended to permit a full and complete audit of all transactions dealt with in the budget.

Local Budgets:

The problem of local budgetary control is very much more difficult than that of the state budget, because of the large number of local districts having legal authority to levy taxes and spend money, and because of the wide diversity of activities and functions which these districts carry on.

There are various preliminary reforms in local finances which are very desirable if a proper control is to be established over these finances. Among the more important of these are a uniform fiscal year, a uniform system of accounting for all local districts, and a reconstruction and consolidation of such districts wherever possible. These steps will simplify the task of budget supervision greatly, but it will remain a very difficult task.

There are two alternatives for the establishment of supervision over local budget making. One is to provide for local supervision of all budgets, taking the county as the unit, and the other is to give the proposed state tax commission this authority. Under the former plan an ex-officio budget commission could be set up, composed either of the county commissioners, of a locally chosen budget commission for the county, or of a group of local officials such as the chairman of the board of county commissioners, the mayor of the largest city in the county, and the president of the most populous school district in the county. Such a budget commission could pass upon the budgets of all local spending districts, but it would be necessary to define and limit its power carefully in order to avoid local opposition to the whole plan. It would be wise, no doubt, to provide, under proper conditions, an appeal from the local budget commission to the proposed state tax commission, whose findings should be final.

The other plan whereby all local budgets would be sent directly to the state tax commission for approval, would increase tremendously the burden upon this body, but it would have the merit of providing the means of a comparative study of expenditures in different districts for different purposes, and of a more intelligent supervision of

these outlays over the state. The latter result could perhaps be accomplished if the commission were given adequate supervision and control over the work of the local budget commissions, together with the right to entertain appeals from the rulings of the latter.

The subject of local budgetary control is so vast and so difficult that it will require many years of experience for its full realization. No state has at present a satisfactory method of dealing with the problem. It is very essential that local public opinion be actively enlisted in support of any plan that may be undertaken, and we recommend as a beginning the introduction of the preliminary means which we have outlined, such as the uniform fiscal year, the uniform system of accounting to be prescribed by the proposed state tax commission, or the department of efficiency, and the consolidation of local districts wherever possible. These steps will produce economies in local expenditures which will make the introduction of more effective budgetary control easier, and the results more lasting and satisfactory.

2. THE TAXATION OF MOTOR VEHICLES:

The subject of motor vehicle taxation has come very rapidly into prominence with the growth in the number of such vehicles in general use throughout the state. There are three aspects from which the problem must be viewed. The first is the taxation of the automobile as personal property; the second is the license tax on the privilege of driving a motor vehicle over the public highways; and the third is the use of the motor vehicle on the highways in the transportation of persons and freight for hire.

Taxation of Automobiles as Personal Property:

The state constitution requires the taxation, according to value, of all property other than that the exemption of which is constitutionally authorized. It is necessary, therefore, to continue the taxation of motor vehicles as personal property. The automobile being subject to universal inspection and always where it can be seen, one would suppose there should be no evasion of the personal property tax. We have learned in our investigations that this is far from the truth. For two reasons at least it is possible for a considerable percentage of the automobiles in the state to escape taxation altogether.

First, the fact that all property is required by statute to be listed and assessed between the first and the fifteenth of March. It is easy for the owner of an automobile to secrete it during these few days and the assessment records indicate that this is a rather common practice. We have found also that importers of new cars make a practice of taking orders for automobiles in advance of the first day of March, but never promise delivery unless they happen to have cars on the floor or know that they can be delivered directly to the individual without subjecting the firm to the tax. This means that the

great bulk of the new automobiles coming into the state arrive here subsequent to the first day of March. Naturally a car purchased after that date does not pay any personal property tax.

Second, as the law has stood for many years, the exemption of \$300 to the head of a household has not been confined to household goods. We have recommended herein that this be changed and that the exemption be declared to be upon personal property consisting of household goods and personal apparel. At present this provision is the means of exempting a large number of automobiles, since those persons who own no household goods may use the \$300 exemption for the purpose of exempting their automobiles. In 1921 the average assessed value of automobiles and auto trucks was only \$276.48. We believe that this is a situation which was not contemplated by the legislature in enacting the personal property exemption. We are satisfied that there was never any intention to protect by a tax exemption an instrument of commercial use such as the automobile. We believe further that the surest and safest way to tax automobiles effectively is to collect the license fee and the personal property tax at the same time. This can be done without changing our constitution since it involves only the manner of collecting the tax and does not affect the uniformity of the tax.

The contention is advanced by some interests that the automobile is now paying more than its share of the taxes. With restriction of the personal property exemption and the establishment of a strong centralized state tax commission with power to compel the full and equal assessment of all property of every nature by the local assessor, the tax burden will be equally distributed to all classes of property. We are referring here to the taxation of property for the support of governmental functions, and not to the tax voted by the people or the legislature for building highways. It is entirely proper that an additional tax should be placed upon an article of personal property which is itself the cause or the medium through which the highways may be built. The modern permanent, hard-surfaced highway has been largely the result of the demands of the automobile owners. Indeed, without the automobile this type of highway would still be regarded as an unwarranted extravagance. These roads are in such a peculiar degree for the use and enjoyment of the autoists as a class, that special taxation of these vehicles for highway purposes is entirely justifiable.

We recognize that in another sense the entire public benefits from these improved highways, and all taxpayers are now meeting the obligation herein implied through the payment of the general tax levies for road purposes. The automobile as a form of personal property should contribute to this purpose, and our recommendation for the collection of the property tax on motor vehicles is designed to insure a better distribution of the property tax to all owners of such property.

License Taxes on Automobiles:

The case for the taxation of the automobile in a special manner in order to provide and maintain the type of highway required for modern motor transportation has already been stated. We have considered the scale of license fees now imposed on automobiles and motor trucks and have decided to make no recommendation looking to a modification of these rates.

The Automobile as a Public Utility:

The development of any new community, territory or country depends on transportation for its present existence, its future, and its continued prosperity. Transportation is the backbone of all activity; without it progress must stop.

When the northwest was first thought of as a possible empire, men with brains conceived the plan of building cross-continental railroads into the heart of what was then an unknown country. The project included the State of Washington. The federal government, realizing the necessity for railroad communication and transportation, granted both the Northern Pacific and the Southern Pacific railroads vast tracts of land to create a value upon which the promoters might erect a financial structure. Capital was secured and the railroads were built. The great northwest came rapidly into possession of its natural resources and soon made itself felt in the Union.

Automobile transportation began in a small way. Individual owners of automobiles carried passengers for hire. Individual owners of trucks hauled freight by the ton over the highways built at public expense, until at the present time we are building highways with the general tax money, twelve per cent of which comes from the railroads as a separate class or property. We are paralleling the railroad rights of way with the finest paved roads in America. These roads are now being tied up by exclusive franchise to bus companies which operate at regular intervals between termini under statutory regulation under what is known as the certificate of necessity, found in an act entitled "Transportation by Motor Vehicles," being Chapter 11 of the Laws of 1920-21, at page 338.

After the certificate of necessity is once secured by an automobile transportation company, it cannot be revoked except by action of the state and no other competing concern can use that particular highway so long as this franchise remains in existence. If the patrons along the highway become dissatisfied with the service they make complaint to the public service commission which in turn grants a hearing and determines whether or not the company owning the franchise shall operate more equipment, and when the order is so issued it shall be complied with, and in case of failure to comply the franchise is annulled. This includes the hauling of passengers as well as the hauling of freight.

For the passenger franchise there is paid the insignificant sum of \$10 for each car having a capacity of not more than eight seats; for each seat in excess of that number the license fee is increased 50 cents. The freight haul automobile pays \$10 of what sum is in excess of the established wheel base weight license.

As stated above, the highways of the state are built from the public funds and the roads are supposedly built for the general use of the public. Under the present system were an individual desirous of buying a truck and operating a freight route or a passenger route on a highway in this state, the road is closed to him if someone has already made application for the franchise. This means that the public has already gone so far as practically to build and maintain what corresponds to the railroad bed and right of way of a railroad, and it is done in part at the expense of the railroad.

In addition to the loss of traffic by the railroad companies, Washington is losing in taxation thousands of dollars each year by reason of the constant reduction of value of railroad property. This can be met by the imposition of a franchise tax upon the gross earnings of auto transportation companies, both freight and passenger, as additional compensation for the exclusive privilege of using these rights of way. It is estimated that in 1920, a year when the business was only in its infancy, the bus business produced two million dollars of gross revenue. A five per cent tax on this volume of earnings would produce a revenue of \$100,000 annually.

In this connection the comments made by the Colorado Public Utilities Commission in defining "public convenience and necessity" as this expression is used in the law providing for the grant of motor bus franchises, should be noted. It was found that in two counties, in which sixty-eight motor trucks were operating as common carriers over the public highways, the total paid by these vehicles for the use of the roads was \$819. The Texas and Rio Grande Western Railroad paid \$38,023 in these counties for highway purposes and other taxes which brought the total to \$153,896. The Commission said:

"Public convenience and necessity, by which must be understood the convenience and necessity of the people at large as contradistinguished from the convenience and necessity of a very small number of persons who seek to derive a profit from farmers' and home owners' investment in the roads, never contemplated that the truck driver should destroy that, to the cost of construction of which he contributed little or nothing, or that he should reap where he had not sown. When the taxing laws of this state are so amended that the truck driver operating over state highways shall contribute his due proportion to the cost of construction and maintenance of our highways, then, and only then, can this commission regard his use, under proper conditions and restrictions, of a great and tremendously expensive public facility as of equal dignity and equal benefit to the people with the moderate use thereof by the ordinary tax payer."

The state policy of regulating commercial motor transportation is not yet completely developed. At present the board of public works

has full jurisdiction only over those concerns which have exclusive franchises for the use of the roads. The law should be amended to give this department complete authority over all concerns and individuals who use the public highways for commercial purposes, whether an exclusive franchise has been granted or not. When this regulative step has been taken, we recommend that a tax of five per cent be imposed upon the gross earnings of all persons or concerns engaging in the transportation over the public highways of passengers or freight for hire. In the meantime, the state should collect at least enough from those using the highways for commercial purposes to cover the administrative cost of this branch of the department of public works. This cost amounts to about \$100,000 annually and the yield of the present scale of fees is only \$20,000 to \$25,000 per year. We recommend an immediate advance of these fees to a level that will make this branch of the department self-sustaining, and the subsequent introduction of a gross earnings tax when the state has assumed full jurisdiction over all who use the highways for commercial purposes.

Highway Tribunal:

We desire also to call attention to another feature of the highway abuse. The auto freight transportation companies are continually hauling loads in excess of the carrying power of the roads. The highways are now provided with a police patrol, but in every case of violation of the highway laws and regulations the offender is brought before a justice of the peace for trial and the punishment meted out by these tribunals makes the highway regulation a farce. A separate tribunal under the jurisdiction and control of the highway department is possible as a means of curing this evil. In New Jersey this plan is in operation and we are advised that it works successfully. The expenses of maintaining this separate court are more than covered by the revenue derived from fines. We recommend such a system of highway tribunals in this state in order to protect the public highways from the abuses now prevalent. If properly protected, the present style of cement road will last indefinitely, but if the present abuses are allowed to continue, these roads will all need to be rebuilt in the near future.

3. REVISION OF CERTAIN LICENSES AND FEES:

We have pointed out above that the state and counties now collect certain license taxes and fees for various purposes. We recommend the following changes in these charges:

(a) Corporation Filing Fees:

A flat fee of \$25 is now charged for filing the articles of incorporation for any corporation which is organized in the state. We have found a system of graduated filing fees is in very general use

among the states, and we recommend the introduction of such a plan for this state, with the following schedule of fees:

<i>Amount of Authorized Capital Stock</i>	<i>Fee</i>
Up to \$100,000	\$ 25 00
\$100,000 to \$250,000	50 00
\$250,000 to \$500,000	75 00
\$500,000 to \$1,000,000	100 00
For each additional \$100,000 or fraction thereof	100 00

(b) Corporation Annual License Tax:

Your committee recommends an increase of the annual license tax on corporations from \$15 to \$30 per year. This is an annual tax imposed on all corporations for the privilege of doing business in the state. Our tax has always been much less than that imposed by any other state in the West, and the privilege of doing business in the state under the corporate form is certainly worth \$30 per year.

(c) Filing Fees Charged by County Offices:

1. *Fees Charged by County Auditors.* It has been fifteen years or more since the legislature has made any attempt to investigate the filing fees now in force in the auditors' offices of this state. These fees were fixed by statute at a time when the cost of operating the auditors' offices was considerably less than it is today, and in addition to this the legislature has from year to year placed upon the auditors additional burdens not originally contemplated as being part of the duties of the auditor.

The theory of the fee is that it is a charge for a special service to the individual, based upon the cost of rendering this service. It is entirely proper that the charge made should fully cover the cost of these services, since the burden must otherwise fall upon the general taxpayers. Your committee has discovered that in all of the larger counties the office of auditor is not self-sustaining, due to the growth in the volume of business and the expansion of the functions of these offices. The increase in the schedule of fees to a level which will cover the cost of the auditors' offices will mean the elimination of the levy which must now be made to cover the costs of these offices, and will accomplish a saving to the general taxpayer, while it places the burden upon those who make the greatest use of these offices, which is where it rightly belongs. We recommend, therefore, that all fees charged by the county auditors of this state for filing of instruments, except the fee for issuing marriage licenses, be increased fifty per cent, but that no change be made in the marriage license fee.

2. *Fees Charged by County Clerks.* The situation in the offices of the county clerks is practically the same as that found in the auditors' offices. The fees were fixed years ago and the legislature has continually added new duties to the clerk's office until the filing fees of the office do not cover the cost of all the duties required to be

performed by the clerk. The latest demand made by the legislature is that of providing for the filing of an additional divorce decree which must be followed by the final decree. While this would not seem to mean much to the majority of counties, yet in King County we find that it means very considerable added costs.

In discussing this matter with the county clerks we find that their state organization has already had this matter under advisement and they intend to recommend to the next legislature a substantial raise in all of the fees of the county clerk's office.

It is not so simple for this committee to recommend a raise of fees in the clerk's office because of the fact that the fees are charged on a different basis from that which obtains in the auditor's office, and we shall content ourselves with the statement of the county clerks that they will ask the legislature to give them at least twenty-five to thirty, and perhaps fifty per cent increase in substantially all of the filing fees in the clerk's office.

3. *Mortgage Recording Fee.* We have recommended in a previous paragraph of this report that all of the fees of the auditor's office, with the exception of the marriage license fee, be raised fifty per cent. The committee is of the opinion that an entirely additional tax should be levied upon all mortgages recorded, with a view of providing an additional source of revenue. Such a tax is now in effect in New York, Michigan, Minnesota, and some other states, and is producing a considerable revenue. The tax is to be paid once, at the time the mortgage is recorded. It will not be burdensome since it is not an annual levy.

We therefore recommend that the law providing for the fees for recording mortgages be changed, in addition to raising the initial fee as now provided by statute, so that it will require the auditors to collect fifty cents per hundred dollars or major fraction thereof on all mortgages filed for record in excess of \$1,500. In placing the minimum at \$1,500 it was the desire of the committee to avoid the necessity of imposing the tax on the small borrower.

4. REFORESTATION:

The subject of reforestation has received the careful consideration of many of the best conservationists and experts in the world. There are two great problems included in reforestation: One, the perpetuation of natural resources, and the other the protection of the water supply of the country.

It is an established fact that where reforestation is not taken up and properly fostered the land which is fit only for reforestation soon becomes a barren waste and in addition to being a menace to other property causes a great loss of revenue from taxation. Those states which have removed their timber resources are now frankly engaged in an effort to replant, and in many instances it has been necessary

even to build up the ground to make it possible for young trees to grow.

In the State of Washington we are fortunately situated. We have vast tracts of virgin timber still remaining, but unless reforestation is undertaken as the merchantable timber is removed the natural growth, without care and protection, will be a very inferior crop. Replanting of trees is not necessary here. We have learned from the experts in this line that if logged-off land is properly burned the new crop will more than likely be fir; if it is not burned and properly cared for the natural growth will be hemlock and spruce.

The treatment of the vast and increasing acreage of logged-off lands is a problem. The first step in a reforestation program was taken by a legislative act of 1915. Chapter 47, Laws of 1915, contains the following provision:

"When the merchantable timber has been sold and actually removed from any land, the board of state land commissioners may classify the land or such portion thereof as may be found most suitable for reforestation, which may by order of the board be reserved from any future sale, and when once so reserved shall not thereafter be subject to sale or other disposition. The commissioner of public lands shall certify to the state fire warden and forester all reservations so made and thereupon it shall be the duty of the state fire warden and forester to protect such land and the remaining timber from fire, and to reforest the same."

No suitable appropriation has been made by the legislature for a proper classification of the lands now belonging to the state for the purpose of setting them aside as reforestation areas. In our opinion it is the duty of the legislature to provide immediately for this classification of all state lands, and the act of 1915 should be further amended by the incorporation of a provision prohibiting the sale by the state of any land that is suitable only for reforestation and including the right of the state to lease the lands so held for reforestation for grazing purposes so long as their use as grazing lands will not interfere with the growth of the young trees.

The state should also be given power to purchase at a nominal consideration all strictly reforestation lands now held by private individuals not desiring to enter into a reforestation contract with the state on their own behalf, and a suitable fund should be set aside by the legislature to be used in acquiring all such lands.

The act should also provide that at the time the timber on the reforested lands becomes merchantable it shall be sold, fifty per cent of the sale price to be placed in the permanent school fund and the remaining fifty per cent to be returned to the counties in which the land is situated to reimburse the counties for the loss of taxes upon the said lands.

The foregoing pertains to the handling of the present state lands and the acquiring of further lands by the state. There is still another field of reforestation that must be considered, namely, the right of the private individual to enter his privately owned logged-off reforesta-

tion lands in the reforestation class, and an act should be passed authorizing the owner of logged-off lands suitable for reforestation to have the same classified by the state land commissioner and after classification to enter into a contract with the state that in consideration of having his land so classified he will agree to have the land placed upon the tax rolls of the county in which it is, at an arbitrary tax value so that each forty acre tract will be taxed \$5.00 and that the tax so levied shall be paid into the state reforestation department for the purpose of defraying the expenses of fire protection, inspection, supervision and control of these reforestation reservations. The county assessor should not be permitted to change the assessment of such lands while they remained in the reforestation class. This act should also provide that when an individual enters into and executes a written contract with the state embodying the terms specified in the statute, it shall exist for a period of fifty years.

The act should further provide that at the end of each ten year period of the life of the contract the tax shall be increased twenty per cent, and that in the event that the owner of the land desires to withdraw from the contract at any time during the life thereof, he should be permitted so to do only upon the recommendation of the state land commissioner, and upon a showing at a hearing held for that specific purpose, that the land can be used to better advantage when put to some other commercial use. If the application is acted upon favorably by the commissioner the applicant shall at the time of release from the contract pay to the State of Washington for the benefit of the county in which the property is located, a sum, as taxes, equal to the amount that the land would have been taxed in said county had it not been registered in the reforestation class. In addition thereto, should there be any revenue derived from the young standing timber upon the land at the time of cancelling the contract, whether as wood, poles, ties or other commercial produce, a sum equal to twenty-five per cent thereof shall also be paid to the county treasurer. This amount, together with the back taxes, should be placed in the general fund of the county.

The act should further provide that at the time the timber becomes fifty years of age the land commissioner shall appraise the same for taxation purposes and shall fix a value thereon sufficient to produce a land tax proportionate in amount to the tax paid by agricultural land. It should be provided further that at the time the timber is cut the owner thereof shall report monthly the number of thousand feet removed therefrom and pay to the state reforestation commission the sum of seventy-five cents per thousand as an additional tax thereon. The money so paid to the state reforestation department shall be divided as follows: twenty-five per cent to the public school fund; twenty-five per cent to the state reforestation department fund; and fifty per cent to the counties in which the timber is situated.

The act should further provide that during the course of growth of the reforested lands the state land commissioner may permit the owner to remove trees by thinning and shall require the owner to remove all of the debris caused by the removal of any tree or trees therefrom, and in the event of the sale by the owner of any trees so removed, fifty per cent of the amount received therefrom shall be paid to the state reforestation department.

All moneys received by the reforestation department for taxes during the growth of the forests and from the cut should be used first to retire the obligation originally created by the establishment of the fund for reforestation purposes. After the retirement thereof the moneys remaining in the fund should be used to acquire other lands by the state reforestation department and for the protection thereof.

We submit these suggestions to indicate what may be accomplished to provide for land classification without changing our constitution. The subject is of the greatest importance for the future prosperity of our state, and we urge that steps be taken without further delay to put a proper reforestation program under way.

5. THE PERSONAL PROPERTY EXEMPTION:

The constitution authorized the legislature to exempt personal property to the amount of \$300 for each head of a family liable to assessment and taxation. Appropriate legislation has been enacted to carry out this constitutional exemption. We believe it to have been the intention, both of the framers of the constitution and of the legislature, to grant to heads of families an untaxed allowance of \$300 in personal property for the purposes of the home, although the law does not specifically restrict the exemption to household goods. Your committee is of the opinion that it is desirable to restrict this exemption to household goods and personal apparel for three reasons: First, the restriction of the exemption to heads of families is indicative of the desire on the part of those who wrote this provision to limit the benefits of the exemption to the goods of the household; second, the expense of collecting the taxes on small amounts of such property is out of all proportion to the amount of revenue returned; and third, the exemption privilege is abused by individuals living in rented apartments, who use the exemption feature to exempt other than household goods, such as automobiles, boats and other property.

To avoid this situation, your committee recommend, on the assumption that such a change would be constitutional, that the law be amended so that the statutory exemption shall apply only to household goods and personal apparel.

The Exemption of Cemeteries:

Section 6891 of Pierce's Code, under the heading of "Exemptions" provides:

"All lands used exclusively for public burying grounds shall be exempt from taxation."

Section 572 is as follows:

"Any person owning any land exclusive of encumbrance of any kind, situated two miles outside of the corporate limits of any corporate city or town of this state, may have the same reserved exclusively for burial and cemetery purposes by complying with the terms of this act, provided that the land so sought to be reserved shall not exceed in area one acre."

Section 569 further provides:

"Burial lots sold by such association shall be for the sole purpose of interment and shall be exempt from taxation, execution, attachment or other claim, lien or process whatsoever, if used as intended exclusively for burial purposes and in no wise with a view to profit."

It is apparent from the above sections that it was the intention of the legislature to exempt only areas of one acre from taxation under a cemetery plot, and then only in case the property were actually used for interment purposes and occupied by the dead, all other vacant lots in the cemetery being subject to taxation.

The intention of the legislature was also that all charges made for cemetery lots should be used for the care, upkeep and improvement of cemetery grounds and that a profit was not contemplated. In the last few years, however, cremation has to a considerable extent taken the place of land burial and in consequence large sums of money are invested in crematories and sepulchers within the confines of cemeteries, and the promoters of such enterprises are reaping a handsome profit therefrom without the payment of their just share of the taxes of the state.

We recommend that the legislature pass a law requiring the assessor of each county to place the property of these associations on the assessment rolls at valuations based upon examination of the gross earnings and not at the usual valuation placed upon cemetery property. We believe that this will produce considerable revenue to the state, as the right granted by the cemetery to the crematory association is a valuable franchise and increases the value of the land upon which the crematory is situated from a merely nominal value as a burial ground to a first-class business property.

We recommend further that legislation be enacted which would require the owner of such a crematorium project to file an application with the county assessor and to pay a license tax based on the number of niches to be sold and the prices at which they are sold.

6. THE MATURITY OF BOND ISSUES:

After a thorough investigation of this subject your committee has learned that there are a great number of bond issues in this state that are being continually refunded, and that the public is being led to believe from year to year that our different communities are in good financial shape when as a matter of fact they are paying interest on bonds issued for public purposes such as bridges, court houses, etc., that have disappeared from the face of the earth and have been re-

placed by new ones, the bonds still remaining a charge on the property of the locality; and in addition, new bond issues have been levied for the purpose of erecting new buildings or bridges.

Your committee believes that the only safe and sound policy for the state to pursue is to retire the bonds when due and not permit refunding. Therefore, we recommend that a law be passed making it obligatory upon each tax raising unit in the state in the raising of funds by bond issues to require the bonds to be retired serially and permitting no bond issues to be refunded. The committee is aware of the fact that there must be a leeway of from one to five years, dependent upon the life of the bond issue and the use to which the money is to be put, before the retirement should commence, since in many instances from one to two years elapse before the money raised by the bond issue can reasonably be used for the purpose for which it is raised and that it is not good business policy to commence retiring bonds before the proceeds of the bond issue have been spent.

We suggest further that this legislation should deal with the relation of the maturity of the bond issues to the life of the improvement provided by such funds. It is a sound principle of public, as of private credit, that no debt should exceed the life of the asset created thereby. It is doubtful if short-lived improvements should ever be financed by bond issues, and it is equally doubtful if any bond issue for a public purpose should have a maturity in excess of forty years. Between the limits of say five and forty years, the maturity of the debt should be adjusted to the life of the improvement, and every bond issue should carry the provision for a tax levy sufficient to pay interest and retirement charges so as to eliminate future necessity of refunding.

7. TAX ON FUEL OILS:

This subject is perhaps the simplest of all of the means of raising taxes which your committee has studied. It recommends itself by its simplicity, by the ease with which it is collected, and by the lack of friction that it causes in the general business conditions of the community. In the very earliest stages of your committee's meetings it was apparent to the majority of the members that the gasoline tax could very possibly raise a considerable amount without doing violence or injustice to anybody. It must be borne in mind, of course, that a tax on gasoline, as on any other subject of barter and sale, must be reasonable, and the tax must not be used simply because it is an easy way of raising revenue.

We have already discussed the problem of modern highway construction and maintenance, and we believe that it is unnecessary to expound this subject further. Everyone recognizes its importance, and the necessity of providing an adequate revenue for the purpose of building and maintaining the public highways. It is entirely proper that a considerable portion of these funds should be derived from the

agencies which have brought on the modern highway problem, and we regard the tax on fuel oils as an equitable means for the diffusion of this burden. Accordingly, we recommend the advance of the existing tax on fuel oil for use in internal combustion engines to three cents a gallon.

8. REVISION OF INHERITANCE TAX RATES:

The inheritance tax has come to be recognized as a productive and permanent feature of the state revenue system. This source of revenue was introduced in 1901, but throughout its history there has been inadequate enforcement and, doubtless, there has been no little evasion of this tax. We have already recommended that the administration of this tax be restored to the tax commission and that more adequate provision be made for the supervision of inventories of estates and the appraisal thereof for the determination of the tax.

We recommend further that the amount of tax to be levied on estates, and on gifts in contemplation of death, be increased, the increase to be effected through a change in the size of the distributive shares to which the present tax rates are applied. The present brackets are:

- (1) Up to \$50,000.
- (2) \$50,000 to \$100,000.
- (3) \$100,000 to \$250,000.
- (4) Over \$250,000.

In the case of direct heirs an exemption of \$10,000 is allowed.

We believe that these brackets are too high and that they could be lowered without causing injustice. It must be remembered that the tax is levied on the distributive share, and that it will be only the occasional large estate in which the share going to each heir is in excess of \$50,000. In consequence the bulk of the estates pay only the lowest rates, which are 1%, 3% and 6%, according to the degree of relationship. The yield of the inheritance tax could be materially increased by a lowering of the stages at which the progression begins for each class of beneficiaries, and we recommend that legislation for this purpose be enacted. We do not propose a specific schedule, but we are of the opinion that a decided change should be made.

9. EXPENDITURE OF PUBLIC FUNDS BY TAXING DISTRICTS:

It has come to the knowledge of your committee that the school districts are anticipating one hundred per cent return upon the tax levy made each year, when experience shows that it is very seldom that more than eighty or ninety per cent of the tax is paid during the tax year, the remainder going over until the next year.

When a school district or university anticipates one hundred per cent and only receives a trifle over eighty per cent, naturally the

district shows a deficit and has to carry outstanding warrants drawing interest.

We believe that the law should be changed in regard to school district and university budgets to incorporate the same regulation as is found in Section 6055 of Pierce's Code, which provides that the county commissioners shall have no power to create a debt against the said funds in excess of 80% of the levy unless there be cash in the fund to pay such warrants. An exception should be made to care for unforeseen catastrophes.

10. THE TAXATION OF INTANGIBLE PROPERTY:

We have discussed above the impasse which has been reached in the taxation of intangible property as the result of the act of 1907 and the Supreme Court's decision to the effect that credits are not property for purposes of taxation. We expressed the view that it would have been better had the matter of constitutional revision been faced and settled at that time, for there will be, after all of these years of exemption, a considerable opposition to any proposal to change the status quo.

The theory upon which the case for some measure of taxation of intangible property rests is the principle that all persons should contribute to the support of government in accordance with their ability. In so far as all of the citizens of the state own real estate or tangible property located within the state, the use of such property as the basis of taxation satisfies this principle. But if some persons derive their incomes from property located outside the state, or from securities, mortgages or other rights to property located elsewhere, these persons are exempted from any contribution to the cost of government in this state quite as much as if they owned federal bonds. It is not sufficient to point out that this property is being taxed as such where it is located. These taxes go to the support of government in the states which are giving protection to this property. Such a person owes an obligation to the State of Washington while he is a resident here, and the present tax law excepts him from this obligation. The same is true, of course, if those intangibles rest on property within the state. The property is taxed, but the owners as persons are exempted.

It does not follow from this argument that such evidence of property rights should be taxed as heavily as the tangible property located within the state. In the first place, regard must be had for the fact that the property is paying a tax, and that a second tax as heavy as the first would be excessive double taxation. In the second place, we must recognize the argument of expediency—on account of the ease with which intangibles may be hidden from the assessor, it is unwise to impose a tax the only effect of which is to produce nothing.

In recognition of these facts many states have introduced what is known as a classified property tax, under which intangibles are segregated and taxed at a low flat rate. Such a system has the merit of

producing far more revenue from intangibles than can be obtained by attempting to tax them at high tax rates, while it meets the objection that a class of tax exempt citizens is being created. Minnesota obtained \$1,363,504 in 1920 from a 3 mill tax on moneys and credits and a mortgage registration tax of 50 cents on each \$100.

It is futile to propose such a tax for the State of Washington until the present sections in the constitution relating to taxation are rewritten. Since the legal view in this state is that intangibles are not property, it would be impossible to tax them even at three mills on the dollar. We have therefore made no attempt to calculate the quantity of intangibles held in the state nor to estimate the amount of revenue that would be derived from them. We do recommend, however, that when a constitutional amendment on taxation is proposed, serious consideration be given to the question of the desirability of restoring intangibles to the category of taxable wealth, with a view to the introduction of a state-wide flat tax at not to exceed three mills on full valuation.

The State Income Tax:

The modern state income tax rests upon the same principle as that which we outlined above in our discussion of the classified property tax. In this respect, indeed, the classified property tax and the income tax are but alternative methods of accomplishing the same result. The income tax is gaining in favor in some states, however, because it is a more accurate measure of personal ability, and also because it makes possible the taxation of those classes of persons whose income is derived from personal services and personal earnings rather than from property. These classes, from the wage earner and the salaried clerk to the professional man receiving large fees, are exempt from all direct taxation under any system of property taxes.

It is not possible to determine the character nor the amounts of the incomes received by the citizens of Washington at the present time. The latest published statistics from the Federal Bureau of Internal Revenue are for the year 1919. The present level of all incomes is much lower, and the 1919 figures are therefore quite unreliable as reflecting the current, or even the normal situation. With these cautions we present herewith the distribution of incomes as shown by the personal returns made for the calendar year 1919 under the federal income tax:

TABLE XIII.
NUMBER OF RETURNS AND DISTRIBUTION OF PERSONAL INCOME
BY SOURCES—1919.

Number of Returns.....		114,322
Wages and Salaries.....	\$212,502,158	
Business	63,654,832	
Partnerships and Personal Service Corporations	16,807,550	
Profits from Sales of Real Estate, Stocks, Bonds, etc...	7,345,389	
Rents and Royalties.....	19,927,776	
Interest and Investment Income.....	14,816,559	
Total Income	\$350,433,156†	
General Deductions	24,946,296	
Net Income	\$325,486,860†	

†Excluding \$433,873 of interest on government obligations not wholly exempt from federal tax.

These figures show that in 1919, \$212,502,158, or 65.2% of the entire net income of those who reported to the federal government, consisted of wages and salaries. Evidently there does exist in the state a considerable class of persons who are making no contribution to the cost of government under our system of direct property taxes.

The distribution of the \$325,486,860 by income classes is shown below:

TABLE XIV.
DISTRIBUTION BY INCOME CLASSES.

Income Classes	TAXABLE		EXEMPT‡	
	Number	Income	Number	Exempt
\$1,000- 2,000.....	44,224	\$63,870,435	11,082	\$17,417,939
2,000- 3,000.....	18,623	45,292,820	11,897	27,072,990
3,000- 4,000.....	12,015	41,373,033	350	1,206,495
4,000- 5,000.....	6,298	27,961,395	87	373,744
Total.....	81,160	\$178,497,683	23,416	\$46,071,168
\$5,000- 6,000.....	2,701	\$15,139,064		
6,000- 7,000.....	1,860	11,921,753		
7,000- 8,000.....	1,208	9,005,120		
8,000- 9,000.....	814	6,860,409		
9,000-10,000.....	596	5,667,258		
Total.....	7,179	\$48,593,604		
Totals.....	88,339	\$227,091,287		
Over \$10,000.....	2,567	\$52,324,405		

‡These persons were exempt under the present provisions of the federal income tax law relating to deductions, etc.

Two things stand out in this analysis: First, the large number of persons reporting who had an income below \$5,000. There were in all 104,576 such persons, and their total income was \$224,568,851, or 69% of the total income. But 23,416 of these persons were exempted from

the federal tax by reason of the personal credits, interest on debts and other allowable deductions, the total amount of income so exempted being \$46,071,168. The second significant fact revealed by the table is the large proportion of the total number of those reporting in 1919 who had incomes of \$10,000 or less. We find that there were 11,755 such persons, or 97.8% of the total number who filed returns, and that they reported \$273,162,455 of income, or 83.9% of the total income. Washington is below the average of the country in this respect, for only 71.01% of the incomes throughout the United States were below \$10,000 and only 56.14% below \$5,000 as compared with 83.9% and 69%, respectively, for this state. Further, we find that in the country at large, 47.94% of the income was derived from wages and salaries, as against 65.2% here.

It is evident from this survey that the bulk of the incomes in Washington are relatively small in amount and are composed in an unusual degree of wages, salaries, and other returns from personal efforts and services. These proportions would doubtless be even greater today than in 1919, which was the peak year of incomes in the United States. These facts are of great significance in any decision to resort to the income tax for state purposes, for two reasons:

First, since the bulk of incomes are small in amount and consist largely of wages and salaries, the rates must be low.

Second, since incomes are small and the number of persons reporting is large, the cost of administration would probably be relatively high.

A similar analysis of the data from Wisconsin shows that 56.4% of the net income returned by the citizens of that state in 1919 consisted of wages and salaries. The incomes below \$5,000 comprised 62.5% of the total and all those below \$10,000, 81% of the total. The average of Wisconsin taxable incomes below \$10,000 was \$2,945, and the similar average in Washington was \$2,570. The conditions in Wisconsin, as shown by the distribution of incomes, are therefore somewhat more favorable for the use of the income tax than are those found in Washington, in that a less proportion of the incomes are below \$5,000 or below \$10,000 and a smaller proportion of them consist of wages and salaries.

Moreover, the income tax is distinctly an urban tax. That is, a very large proportion of this tax will be paid by those who reside in urban districts, where the large accumulations of wealth and income are normally found. In 1919, 31.4% of the federal income tax was paid from New York State, and of this it has been estimated that more than 80% was paid from New York City alone. On account of the deductions and personal exemptions allowed under every income tax the rural sections in any state contribute only a relatively small amount. Under any equitable system of distributing the proceeds of such a tax in Washington, the benefits would accrue chiefly to the cities.

It has been demonstrated also, that neither the income tax nor the flat tax on intangible property will operate successfully except under the most favorable administrative conditions. In fact, the general verdict as late as 1910 was that state income taxation was and would be a failure, largely because of the administrative defects. Wisconsin changed this verdict by placing the income tax under the control of the state tax commission and providing new and comprehensive administration machinery. All of the states which have been willing to follow the principles of income tax administration first developed in Wisconsin have found the income tax a fairly satisfactory source of state and local revenue. Unless a state be willing, therefore, to give most careful consideration to the development of sound and impartial administration, it were better not to attempt the income tax.

We find that certain conditions are essential for the best results under the income tax:

First, a very effective centralized administration.

Second, a fair degree of concentration of wealth and incomes, for the bulk of the tax must come from the larger incomes, if sufficient revenue is to be produced to justify the tax.

We have recommended the establishment of a state tax commission to be composed of competent persons, and to be endowed with administrative authority sufficient to effect a reorganization in assessment methods and general tax administration. If this recommendation is accepted and adopted as we have conceived it, the central organization would be provided, and there would remain only the special framework for the introduction of competent income tax administration. The latter would involve the organization of the state into districts and the erection of income tax assessment machinery in each district, under the absolute control and direction of the central tax commission. The assessors of income would need broad powers for the discovery and assessment of incomes. It is clear that such an organization would necessarily be expensive, although the cost must be considered in relation to the yield. Experience in Massachusetts and New York indicates that administrative cost of the income tax will be about 3% of the tax collected. It would probably be in excess of this ratio for Washington.

We have already presented the general situation in Washington, with regard to the second condition for the success of the income tax, namely, the concentration of wealth and incomes. There is a wide diversity of economic conditions in the state ranging from the great areas with sparse population and low incomes to a few urban centers in which the bulk of the capital resources of the state are concentrated. The income tax would be of very little advantage as applied to the rural portions of the state, with the exception of certain small areas in which intensive agriculture has been developed. These areas would probably produce little, if any, more than enough to pay the cost of administration. If the income tax could be applied to the cities alone

it would be fairly productive. But its administration must be state-wide to be effective.

Furthermore, a large proportion of the incomes of the state consist of wages and salaries, the average of which is relatively low. It is true that the income tax is a means of reaching these classes by direct taxation, and the other methods of accomplishing this result are less satisfactory. But on the other hand the average return would be small, the tax on such small taxable income returned by the salaried and wage earning classes would be at low rates, the yield would be low, and the administrative expense therefore relatively high. Under these circumstances the public treasury would gain little.

In view of these facts regarding the whole situation, we are of the opinion that it would be unwise to introduce the income tax at this time. We approve the principle of the personal income tax under suitable conditions, but we do not consider that these conditions exist at the present time. To a large extent the same ends may be met by the introduction of a flat tax on intangibles, such as we have already discussed and approved. In our suggestions for the future development of the state's revenue system we have proposed that at the proper time a personal income tax be introduced.

We feel that we are confirmed in this conclusion by the fact that the federal government continues to impose very heavy rates of taxation upon incomes. There is no immediate prospect of a reduction in the federal rates, and we are reluctant to recommend the introduction of additional income tax burdens while the existing federal burden continues.

11. GENERAL SALES TAX:

It is the unanimous opinion of the committee that a general sales tax is not a proper tax to be used in the State of Washington as a part of our revenue system.

In this connection it may be of interest to note that the members of the committee on tax investigation of the State of Oregon concur with us in this belief, both committees rejecting the principle as unsound. This decision was arrived at after a careful study and consideration of the principles involved. While both committees are not prepared to go to the extent of stating that the sales tax principle may not be a proper tax for the federal government, its use by a state cannot be justified by any of the arguments in favor of a national sales tax for the following reasons:

1. The sales tax is a consumption tax and is, therefore, an added business cost. By this we mean that if the State of Washington alone were to adopt the use of a sales tax, either on retail sales or upon the products of the wholesaler, its application would increase the cost of commodities in the state of Washington as against the same commodity in the surrounding states, and would of necessity make it

more profitable for the average citizen to do all the business possible with mail order houses and other foreign dealers, rather than with his local tradesmen.

It is urged that the sales tax, like various other taxes, is in any event passed on to the ultimate consumer, therefore, why not place the tax definitely and collect it in the first instance from the consumer? The following illustration may be used to show the effect of such a tax, if our state undertook, alone, to make use of it. We have in mind its effect upon the small manufacturer who manufactures an article that goes into the creation of a subsequent article, for instance, the manufacturer of lumber. The sale to the box manufacturer must be accounted for. In turn the box manufacturer sells his boxes to a jobber. The tax is also applied. The jobber in turn sells the boxes to the fruit producer or the salmon industry or the coffee distributor, and the tax is added, and so on down the line.

Everyone knows that the manufacture of boxes is an industry that is necessary in this state, and if the tax so accumulated brings the price to a point where the manufacturer cannot make a profit as against the boxes made in Oregon or Idaho, he will be compelled to enter some other line of industry.

2. The retail price of some articles of local consumption is fixed not only by the law of supply and demand, but by the originator of the article. Were the retailers required to account for a sales tax on this class of merchandise, the merchant would be compelled to pay the tax on his gross sales, but being unable to increase the price of the article by the amount of the tax on account of the policy of price control, he would be obliged to add it to the price of some other article carried for sale. This practice, if carried out to its logical conclusion, would undoubtedly force the merchant to raise the price of all non-price-fixed articles in such amount that the merchant could not meet competition.

3. Cost of Collection:

If the sales tax principle only meant the fixing of the percentage to be paid to the state, without the necessity of creating an immense state bureau with agencies in every county, city and hamlet, with the necessary force of inspectors, auditors and accountants, the system might seem more feasible of enforcement, but it appears to the committee that the enormous amount of machinery necessary to properly collect and administer the tax is out of all proportion to the amount that could be expected as the return for its use.

4. Sales Not Possible of Taxation:

It must be remembered that out of the bulk of sales made in the State of Washington over a period of a year, estimated at approximately \$4,200,000,000 (which includes both retail and wholesale) a very large proportion is represented by sales of lumber for foreign

and interstate commerce, none of which can be taxed by the state. When we take into consideration that of our principal industries, namely, lumber, fish, wheat and fruit, which represent only the sales made of our own natural resources, by far the greater percentage is sold outside of the state, and therefore untaxable; and the great volume of sales of goods made in this state produced elsewhere, also not subject to taxation, the committee are unanimously of the opinion that a sales tax of one, two, three, or five per cent, would be a very disastrous measure for this state to adopt, and in turn would not produce enough revenue to justify the cost of its collection.

(N. T. A. Bulletin, Vol. 9, p. 270)

12. CHANGE IN MEMBERSHIP OF COUNTY BOARD OF EQUALIZATION:

The law now provides that the county assessor shall be a member of the county board of equalization and shall be the clerk of the board. We recommend that the board be composed of the county commissioners with the county auditor acting as clerk thereof. Cities should be allowed to retain the representation on these boards which is now provided by law. This remedial measure is suggested by the committee in response to a general demand of the public, on the ground that it is not proper for the assessor to sit in judgment on his own work.

13. POLL TAX:

The present poll tax law was enacted by the last state legislature on the assumption that an emergency existed warranting this extraordinary form of direct taxation.

In the opinion of the committee a poll tax has no place in a modern system of taxation designed to function as a permanent and equitable means of raising revenue to meet the cost of government.

We therefore recommend the repeal of the poll tax.

14. TAX EXEMPTION SECURITIES:

We submit herewith an extract from the report of the Congressional Committee on Ways and Means, on the subject of tax exempt securities:

"The Committee on Ways and Means, to whom was referred House Joint Resolution 314, a resolution proposing an amendment to the Constitution of the United States, having had the same under consideration, report it back to the House without amendment and recommend that the resolution do pass.

"The amendment proposed strikes at an evil in our system of taxation which is already great and, if unchecked, will grow to such magnitude as to even threaten the existence of our institutions. The Constitution of the United States, as it now stands, not only permits the issuance of tax-exempt securities by either Federal or State Governments, but absolutely prevents the Federal Government on the one hand levying income tax on securities issued by the several States, and the States on the other hand from levying an income tax on the securities issued by the Federal Government. Under

these conditions there has been brought into existence an amount of tax-exempt securities variously estimated at from \$10,000,000,000 to \$18,000,000,000. The existence of conditions that enable any municipality or political subdivision to issue tax-free securities is a constant temptation to issue such securities in larger amounts than is necessary. It amounts to a subsidy offered to every such corporation with regard to its own direct borrowing. It also operates as an inducement to every municipality to have all kinds of public utilities owned and controlled by the municipality itself, thereby escaping its proper share of Federal and State taxation. In 1921 over a billion dollars was issued of tax-exempt securities, and the amount in existence is constantly increasing. It is obvious that this condition of affairs makes it difficult for public utilities privately conducted to maintain their financial condition, for just in proportion as the money can be obtained cheaper on bonds that are tax exempt the rate becomes higher on those which are subject to levy. When so large an amount is invested in tax-exempt securities the inevitable result is that it is more difficult to obtain money for ordinary private business and that investment in productive business is discouraged. The rate of interest required from private business is raised in proportion to the amount invested in tax-exempt securities. So also as the Federal Government finds less amount of securities upon which an income tax can be levied the higher must be the rate on the amount that is subject to tax.

"As time proceeds, the mass of tax-exempt securities, already so great, will continue to increase until every inducement will be offered to the man having a large income to make his investments solely in tax-exempt securities, and even the comparatively small taxpayer will find it to his profit to invest in them. In the meantime the revenues of the Federal Government derived from large incomes must continue to shrink and the income tax will be collected largely from those who have only comparatively small incomes. This condition can not but have a highly injurious effect upon the business of the country as well as the revenues of the Government.

"That some benefit is derived in certain directions by the issue of tax-exempt securities drawing a lower rate of interest, is not to be denied, but the majority of the committee are satisfied that these benefits are slight compared to the injury inflicted by the present plan.

"The amendment proposed, being merely permissive, would not absolutely require that bonds of the Federal Farm Loan Bureau and the joint stock land banks be taxed but in practice it would have that effect. Whatever might be said as to the propriety and necessity of such bonds being exempt from taxation when sold in competition with so large an amount of tax-free securities as now are being issued every year, the majority of the committee believe that it would be neither necessary nor proper that they should be free from taxation when the further issuance of competing tax-exempt securities is barred. Nor will this on the whole increase the rate of interest paid by the farmer.

"The testimony before the committee was to the effect that only 5 per cent of the farmers who borrowed money were obtaining it through the Federal farm loan system and that the inducement to large investors to put their money into tax-exempt securities was constantly causing withdrawals from farm loan mortgages, reducing and making scarce the amount of private funds available for such investment, thereby raising the rate of interest to those that were not able to obtain loans through the Federal land-bank system on account of its requirements or for other reasons, so that it was actually claimed that as long as our present system of taxation prevailed the Federal Farm Loan Bureau operated to the disadvantage of the farmer rather than to his benefit. Certain it is that, notwithstanding the prevailing low money rates, farm loans obtained from the private investors command

a much higher rate than before the war. In this connection it should also be noted that the committee has many times had called to its attention that there was great difficulty in obtaining funds for the construction of homes and necessary improvements on real estate in the towns and cities and that an abnormally high rate is obtained for money loaned for such purposes.

"There is no doubt, also, that the direct advantage resulting from the issue of a tax-exempt bond to the governmental entity issuing it is usually much exaggerated. Before the present income tax law was enacted Federal, State, and municipal bonds always commanded a premium over other issues by reason of the superior security. This premium often amounted to one-half of 1 per cent, and naturally varied with the circumstances. There are a large number of institutions that are obliged by law to keep their investments in issues of undoubted security, which increases the demand for State and municipal bonds, even though these institutions derive little if any benefit from their tax-exempt character.

"But even with this demand there still remains a surplus of tax-exempt securities over and above those required to fill the demands of the great investors and the institutions just mentioned. These bonds must be sold to the small investor and this surplus fixes the market for the whole. The large investor therefore is not obliged to pay in proportion to the benefit he received in tax reductions. In this connection it should be observed that the Government today is able to negotiate its short-time securities at 3½ per cent although the issue is not tax-free. While there is a difference of nearly 1 per cent in the interest rate between Liberty bonds that are tax-exempt and those that are subject to taxation, Secretary Mellon gave his opinion that this was caused by the comparatively small amount of the tax-exempt issue and that if the whole amount of the Liberty bonds had been tax-exempt there would have been little, if any, reduction from the rate at which those subject to taxation were negotiated. Former Assistant Secretary of the Treasury, Mr. Leffingwell, also gave his opinion to the same effect. It is evident that the difference in the rate depends largely upon the amount of the issue, the date of maturity, and many other circumstances, as well as upon the tax-exempt feature. In a letter dated February 9, 1922, to the chairman of the committee, Secretary Mellon demonstrated that at from any point of view the Government was a heavy loser by reason of the issuance of tax-exempt bonds.

"These considerations have been for a long time apparent to those who were specially concerned with matters pertaining to the Federal revenue. As early as April 30, 1921, the Secretary of the Treasury addressed a letter to the chairman of the Committee on Ways and Means recommending to Congress that it consider the advisability of taking action by statute or constitutional amendment where necessary to restrict further issues of tax-exempt securities, and again on September 23, 1921, in another letter, to the chairman of the Ways and Means Committee, Secretary Mellon states:

"The ever-increasing volume of tax-exempt securities (issued for the most part by states and municipalities) represents a grave economic evil, not only by reason of the loss of revenue which it entails to the Federal Government but also because of its tendency to encourage the growth of public indebtedness and to divert capital from productive enterprise. The issue of tax-exempt securities has a direct tendency to make the graduated Federal surtaxes ineffective and nonproductive, because it enables taxpayers subject to surtaxes to reduce the amount of their taxable income by investing in such securities; and at the same time the result is that a very large class of capital investments escape their just share of taxation."

"Further, in a letter dated January 16, 1922, Secretary Mellon said:

"The most important consideration is that the existence of the growing mass of tax-exempt securities, coupled with the extremely high surtax rates

still imposed by law, tends to drive persons of large income more and more to invest in wholly exempt securities issued and still being issued by states and municipalities and heretofore issued by the Federal Government. The result is to impair the revenues of the Federal Government and to pervert the surtaxes, so that instead of raising revenue they frequently operate rather to encourage investment in wholly tax-exempt securities, and even to encourage the issue of such securities by states and municipalities. This process tends to divert investment funds from the development of productive enterprises, transportation, housing, and the like, into nonproductive or wasteful State or municipal expenditures, and forces both the Federal Government and those engaged in business and industry to compete with wholly tax-exempt issues, and on that account to pay higher rates of interest.

'The greatest value of the full exemption from taxation arises, of course, from the exemption it confers in respect to Federal income surtaxes, and the constantly increasing volume of tax-free securities therefore constitutes a real menace to the revenues of the Federal Government. At the same time it makes the high surtaxes operate as inducements to investment in nonproductive public indebtedness and is gradually destroying them as revenue producers. As a consequence the yield of the surtaxes is dwindling and there is a premium on the issue of bonds of states and cities. In the last analysis this is at the expense of the Federal Government, and it is having a most unfortunate and far-reaching effect upon the development of the whole country because of the diversion of wealth from productive enterprise.'

'In his message of December 6, 1921, President Harding said:

'Many of us belong to that school of thought which is hesitant about altering the fundamental law. I think our tax problems, the tendency of wealth to seek non-taxable investment, and the menacing increase of public debt—Federal, State and municipal—all justify a proposal to change the Constitution so as to end the issue of non-taxable bonds. No action can change the status of the many billions outstanding, but we can guard against future encouragement of capital's paralysis, while a halt in the growth of public indebtedness would be beneficial throughout our whole land.'

'The Ways and Means Committee at that time had before it a joint resolution for constitutional amendment introduced by Mr. McFadden authorizing the Federal Government and the several states to each tax the securities of the other to the same extent as it taxed its own, and several other resolutions having the same purpose. Subsequently hearings were had upon the resolutions and, it becoming apparent that a majority of the committee favored the reporting of such a resolution, a subcommittee was appointed to consider the form thereof. The resolution in the form now reported is a result of the work of this subcommittee, aided by the Treasury experts, both legal and fiscal, and the Legislative Drafting Service. The form as now presented has been agreed to and is recommended by the Treasury Department.

'It appeared from the hearings that the subject had already been given careful consideration by various tax associations and tax experts, all of which concurred as to the necessity of such an amendment to the Constitution and in advising its speedy adoption. Among the associations that have taken such action are the National Tax Association, composed of representatives from every state; the National Association of Real Estate Boards; the United States Chamber of Commerce; the American Farm Bureau Federation; the American Economic Association; the Investment Bankers' Association; the Farm Mortgage Bankers' Association; associations representing the public-utility business; the New York State tax conference; the Peoples Reconstruction League, and the Ohio Tax Association.

"So far as is known to the committee all of the prominent authorities on the subject of taxation favor the amendment. The United States is the only one of the great nations that permits such a condition to exist.

"In addition to these economic evils, tax exemptions create a grave danger to our social system and form of government. No principle of taxation is more generally accepted today than that taxes should, as a rule, be levied in accordance with ability to pay and all citizens should pay in the same manner. The present condition violates every rule based upon these principles, and while we seek to create, as far as possible, equality in taxation, we find that the Constitution makes it impossible. There should be no privileged class under our Government, but a special privilege is granted to those who invest in tax-exempt securities. This situation is the ground of just complaint and creates discontent and prejudice against people of large means who use a lawful method to lessen their taxes. Comparisons are naturally made between certain parties who have a large income derived in whole or for the greater part from tax-exempt securities, and pay little or no income tax, and those who have only an income of moderate size derived from their personal exertions and, by reason of the present needs of our Government, are heavily taxed. A system that will permit one man to have exempt from taxation an income of \$25,000 a year from securities which, possibly, he obtained by descent or devise, and which taxes heavily another man who, by his personal exertions, earns the same sum, is unfair and unjust, and when great estates largely consist of tax-exempt securities which pay no tax whatever the situation affords an opportunity for those who seek to attack our institutions.

"The majority of the committee therefore found that the present system should be condemned for the following reasons:

"(1) A large portion of property escapes taxation, thereby causing great loss of revenue;

(2) It violates the ability principle of taxation and unfairly discriminates between taxpayers;

(3) It impedes private financing;

(4) It discourages investment in new enterprises;

(5) It encourages extravagance of governmental agencies;

(6) It grants a private subsidy to certain interests;

(7) By withdrawing money from private enterprises it increases the rate of interest required for all enterprises not carried on by the Government and thereby adds to the cost of living;

(8) It creates social unrest; and that the only practical remedy was by constitutional amendment such as is now proposed.

"It will be observed that the form of amendment does not forbid the further issuance of tax-exempt securities, but merely permits their taxation by the Federal Government on the one hand, provided it does not discriminate against securities by the States of under their authority in favor of national securities, and that each State on the other hand, is permitted to tax the securities issued by the Federal Government, provided the State in levying the tax does not thereby discriminate in favor of securities issued by it or under its authority. In other words, the several States are given the same rights with reference to Federal securities that the National Government has with reference to the State securities."

We endorse this proposal thoroughly and recommend that proper steps be taken to insure the support of the Washington members of both houses of Congress on this measure.

15. SUGGESTIONS FOR A MODEL TAX SYSTEM:

Your committee feels that the full intent of the legislative resolution under which it acts would hardly be complied with unless some suggestions were presented relating to the development of the state's revenue system in the future. We venture, therefore, to submit a tentative outline of the line of development which, in our opinion, it would be well for the state to follow as the opportunity arises to make further developments in the revenue system. Some of these suggestions have been proposed in this report as changes which should be introduced without delay, if there is to be any progress in effecting a more equitable distribution of the tax burden. Perhaps the most important of these is the reorganization of the system of administration which we have made the central feature of this report.

The basis of the state's revenue system will continue to be, as it has always been, the property tax. We have presented in this report the evidence to show the present relative importance of the property tax, and we are unable to foresee the time when the general economic conditions which now prevail in this state will have so changed as to occasion the development of other sources of revenue of greater importance. We reiterate here the point which we have already emphasized, namely, that the outstanding importance of the property tax gives great significance to the problem of its efficient and equitable administration. A modern state tax department or tax commission, will therefore be the head and center of the state's taxation system, in the future, as it should be at present.

We are not satisfied, however, to accept the narrow, illogical, and unwarrantable definition of property which the legislature devised in the act of 1907, and which was sustained and approved by the Supreme Court in *State ex rel, Wolfe vs. Parmenter*, 50 Wash. 363. We have criticized this view at length in our report. We believe that this error must be corrected, and that the constitution should be so amended as to accomplish not only this result, but to make possible the introduction of the principle of classification of property for purposes of taxation. We approve the model constitutional provision on taxation which has been prepared and recommended by the National Tax Association. This provision is as follows:

"The power of taxation shall never be suspended, surrendered, or contracted away. All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax, and shall be levied and collected for public purposes only." (Proceedings of the Fifth Annual Conference of the National Tax Association, 1911, p. 453.)

Such a section provides the necessary constitutional safeguards against unjust taxation and against the improper use of the taxing power, while it leaves to the legislature the full responsibility for the actual form of the taxation system, with complete freedom to change, adjust and adopt this form as changing conditions may require.

We propose, also, for the future as for the present, a vastly improved inheritance tax. We have recommended an immediate change in the brackets to which the present schedule of rates is applied, and the reform in the administration of this tax. We advise that the legislature study with care the model inheritance tax law drafted and recommended by the National Tax Association, with a view to promoting a uniform interstate policy of inheritance taxation.

(See proceedings of the Fourth Annual Conference of the National Tax Association, 1910, p. 279.)

We repeat also our suggestion that all proper influence be used upon our members of Congress to secure the relinquishment of the inheritance tax by the federal government, in favor of the states. The latter have far greater need for the revenue; they do not have the other vast resources of taxation which the federal government enjoys; and since the whole process of administering estates is conducted under the state law and by state and local authorities, the full right to this tax should be relinquished to the states.

It is a truism in public finance that the form of any state's revenue system should be adapted freely to the character of the wealth and the tax paying capacity of the people of that state. For this reason we have recommended the removal of the constitutional hindrances to the development of a greater degree of elasticity in the revenue system. In accordance with this principle we suggest two new forms of taxation which offer possibilities for the future since they do not take account of the peculiar character of the state's resources and of the distribution of wealth within the state.

The first of these is a production tax upon the quantity of such natural resources as lumber, coal and other mining products, fish, and other commodities which constitute so large a part of the state's original wealth. In Louisiana such taxes are called "severance" taxes, and are levied upon those who are engaged in the business of securing natural resources from the soil or water. We shall not attempt here a detailed outline of such a system of taxes for this state, but we do believe that the principle is sound, and that such a tax would be eminently practical, as well as satisfactorily productive. Several states are now making use of such a tax, and it is proving to be a productive source of revenue, as well as a fairly simple tax to administer.

(See George Vaughn—The Severance Tax, Bul. of National Tax Association, May, 1922.)

The second new source of revenue we suggest is a series of local business license or occupation taxes.

Our discussion of general income and sales taxes in this report has presented the grounds upon which we have hesitated to recommend immediate adoption of such taxes on a state-wide basis. The concentration of wealth, population and business activity into the larger cities of the state, and the very large area outside of these

urban centers which has little population and a small volume of taxable wealth or income, were factors which influenced our decision. Since the revenue problem is probably most acute in the cities, their case could be met by the development, within the municipality, of local business license or occupation taxes.

The use of such taxes would involve a rather careful survey of the local situation, but it is apparent that each city would have here a tax that would be productive, and at the same time one the incidence of which would not be inequitable. The basis of such a tax could be either gross earnings or net income, or the tax could be imposed at a series of flat rates, the amounts of which were varied according to the nature and scope of different businesses. The flat tax could be used for all concerns doing less than a minimum volume of business, and the graduated taxes on earnings could be used above this point. Eventually, when the development of the state's population, resources and income power has reached a level which would warrant its use, a state-wide income tax should be introduced. The income tax is doubtless the most equitable form of taxation for the purpose of supplementing the property tax, but as we have indicated in the report, it is doubtful if the time has yet arrived for the introduction of such a tax.

When the principle of taxing persons according to their ability is introduced through the personal income tax, the state's revenue system should be rounded out by the use of a business tax on the net income received by all business concerns from business done within the state. The main features of the state's taxation system, in addition to the improvements already suggested, would then be the following:

First: The taxation of property located within the state, with a differentiation of intangibles to be taxed at a low flat rate. The principle of taxation according to benefits received requires that property be taxed proportionately to its value, with a reasonable use of classification of forms of property.

Second: The taxation of persons according to their ability to pay. This would be accomplished under the income tax, which would be levied on the individual's total net income from all sources. The income tax should be a graduated, or progressive tax, since ability increases faster than incomes, and the personal deduction should be low, in order to secure the widest possible diffusion of the tax.

Third: The taxation of business concerns doing business within the state on their net incomes from such business. Such a tax would be a business tax, not an income tax, and its basis would be the net business income. Such a tax should, therefore, be uniform rather than graduated.

We do not undertake to outline all of the changes in the existing tax laws which these suggestions would entail. In this outline of a taxation system which the state might seek to advance we have

had in mind the model tax system for state and local governments which has been prepared by the National Tax Association. It may be that future developments in this state will never be such as to warrant the full application of this program, but we know of no better or wiser program which might be held up as a model revenue system, toward which the state might seek to advance as the trend of circumstances warranted.

Respectfully submitted,

REEVES AYLMORE, JR., *Secretary.*

N. ECKSTEIN, *Chairman*
 W. W. ROBERTSON
 D. W. TWOHY
 STEPHEN B. L. PENROSE
 PETER MCGREGOR
 F. D. OAKLEY
 GEORGE M. ELLIOTT
 ALEX POLSON
 ROBT. H. HARLIN.

BOND ISSUES BY COUNTIES AND MUNICIPALITIES 1920 AND 1921
 COMPILED FROM ANNUAL REPORTS ON FILE IN DIVISION MUNICIPAL
 CORPORATIONS

BONDS ISSUED	Year of 1920	Year of 1921	TOTAL
By Counties:			
School	\$3,734,970 00	\$4,678,450 00	\$8,413,420 00
County Road Construction	3,846,636 00	3,738,870 00	7,585,506 00
Donahue Roads	3,311,150 00	860,250 00	4,371,400 00
County General	451,000 00	235,000 00	686,000 00
Dike Districts	195,000 00	213,500 00	408,500 00
Waterways	77,000 00	91,600 00	168,600 00
Port Districts	1,698,500 00	1,547,900 00	3,246,400 00
Irrigation Districts	1,218,350 00	194,400 00	1,412,750 00
Drainage Districts	140,600 00	254,300 00	394,900 00
Total Counties	\$14,873,206 00	\$11,874,270 00	\$26,687,476 00
By Municipalities:			
Taxation Bonds	\$1,556,469 99	\$1,090,600 00	\$2,647,069 99
Revenue	892,700 00	6,397,300 00	7,110,000 00
Local Improvement Districts	10,961,642 32	10,457,589 16	21,419,231 48
Total Municipalities	\$13,320,812 31	\$17,855,489 16	\$31,176,301 47
Grand Totals—Counties and Municipalities..	\$28,194,018 31	\$29,669,759 16	\$57,863,777 47

NOTE Report from Garfield County for 1921 not yet on file at 5-17-22. Report from towns of Iwaco, Sunnyside, Goldendale, Kalama, Waterville, Wapato, Grandview, Edmonds, Winlock, Ridgefield, Prescott, Snoqualmie, and Selah not on file at 5-17-22.

POLL TAX DATA AND RECEIPTS TO FEBRUARY 28, 1922.

COUNTY	Total Vote	Regis- tration	Received by State	Received by County	Total
Adams	2,340	2,347	\$13,936 00	\$3,484 00	\$17,420 00
Asotin	1,961	2,254	7,344 00	1,836 00	9,180 00
Benton	3,929	4,492	13,236 00	3,309 00	16,545 00
Chelan	6,821	7,393	35,124 00	8,781 00	43,905 00
Clallam	3,638	3,764	18,028 00	4,507 00	22,535 00
Clarke	9,641	11,271	46,388 00	11,597 00	57,985 00
Columbia	2,206	2,750	9,888 00	2,472 00	12,360 00
Cowlitz	3,883	4,608	17,560 00	4,390 00	21,950 00
Douglas	2,810	3,226	13,044 00	3,261 00	16,305 00
Ferry	1,433	1,622	4,732 00	1,183 00	5,915 00
Franklin	1,952	2,295	11,424 00	2,856 00	14,280 00
Garfield	1,350	1,380	6,302 00	1,575 00	7,877 00
Grant	2,449	2,550	10,696 00	2,674 00	13,370 00
Grays Harbor.....	12,322	14,734	80,320 00	20,080 00	100,400 00
Island	1,806	1,817	6,764 00	1,691 00	8,455 00
Jefferson	1,977	2,305	9,824 00	2,456 00	12,280 00
King	113,065	145,981	577,356 00	144,339 00	721,695 00
Kitsap	10,362	12,181	40,876 00	10,219 00	51,095 00
Kittitas	5,545	6,113	28,946 00	7,286 00	36,182 00
Klickitat	2,947	3,436	14,180 00	3,545 00	17,725 00
Lewis	11,614	12,902	50,862 00	12,715 00	63,577 00
Lincoln	4,787	5,911	23,632 00	5,758 00	28,700 00
Mason	1,868	2,121	8,272 00	2,068 00	10,340 00
Okanogan	5,278	5,811	22,432 00	5,608 00	28,040 00
Pacific	4,179	4,682	25,204 00	6,301 00	31,505 00
Pend Oreille.....	2,066	2,427	12,972 00	3,243 00	16,215 00
Pierce	44,027	53,609	202,252 00	50,563 00	252,815 00
San Juan	1,327	1,615	4,592 00	1,148 00	5,740 00
Skagit	10,901	13,081	47,388 00	11,847 00	59,235 00
Skamania	810	961	3,812 00	953 00	4,765 00
Snohomish	21,147	24,704	96,860 00	24,215 00	121,075 00
Spokane	44,194	44,549	226,320 00	56,580 00	282,900 00
Stevens	6,105	7,323	27,036 00	6,759 00	33,795 00
Thurston	7,641	8,871	35,076 00	8,769 00	43,845 00
Wahkiakum	873	941	4,532 00	1,133 00	5,665 00
Walla Walla	9,014	10,453	40,916 00	10,229 00	51,145 00
Whatcom	16,405	18,886	76,444 00	17,611 00	88,055 00
Whitman	10,075	11,000	51,664 00	12,916 00	64,580 00
Yakima	19,945	24,267	91,968 00	22,992 00	114,960 00
Totals.....	414,691	490,824	\$2,011,602 00	\$502,890 00	\$2,514,501 00

Amount Poll Tax collected in State to February 28, 1922..... \$2,514,501 00
Number registered, 490,824 at \$5.00..... 2,454,120 00

Number paid in excess of registration, 12,076 at \$5.00..... \$60,381 00

Number registered November, 1920..... 490,824 97.6 %
Number not registered November, 1920..... 12,076 2.4 %

Number collected from..... 502,900 100.0 %

PROPERTY EXEMPT FROM TAXATION IN VARIOUS COUNTIES

COUNTIES	U. S. Government	State	County	Port	City and Town	Church and Hospital	School	Cemeteries	Heads of Families	Total
Adams	\$82,130 00	\$184,800 00	\$145,699 00		\$148,300 00	\$42,250 00	\$348,725 00	\$4,500 00	\$175,800 00	\$1,132,204 00
Asofin			26,500 00		4,980 00	6,950 00	157,630 00	1,880 00	265,000 00	462,940 00
Benton	20,500 00	60,250 00	118,283 00		21,203 00	85,000 00	550,000 00	7,400 00	440,780 00	1,303,410 00
Chelan	44,820 00	3,770 00	75,010 00		153,710 00	133,990 00	332,270 00	83 00	437,810 00	1,180,863 00
Challam	4,287,740 00	961,300 00	120,000 00		60,195 00	30,000 00	305,125 00	4,000 00	398,000 00	6,166,360 00
Clarke	2,595,528 00	200,000 00	309,000 00	\$275,000 00	150,000 00	568,000 00	1,504,028 00	125,000 00	2,250,000 00	7,967,556 00
Columbia			100,000 00		7,000 00	30,000 00	200,000 00	1,200 00	339,750 00	677,960 00
Cowlitz	538,160 00	2,315,860 00	76,400 00		60,000 00	53,500 00	319,770 00	4,900 00	500,000 00	3,872,090 00
Douglas	4,500 00	835,670 00	67,632 00		224,384 00	68,500 00	2,780,410 00	2,125 00	528,334 00	4,511,555 00
Ferry			74,600 00		450 00	10,000 00	111,500 00	500 00	192,300 00	389,350 00
Franklin	465,550 00	298,730 00	229,930 00		35,600 00	70,760 00	208,400 00	1,500 00	263,930 00	1,574,400 00
Garfield	47,896 00	288,630 00	375,526 00		156,080 00		33,000 00	4,000 00	740,806 00	1,645,938 00
Grant	1,000,000 00		179,520 00		80,000 00	25,000 00	311,950 00		423,935 00	2,020,405 00
Grays Harbor*				15,000 00					768,300 00	783,300 00
Island			12,000 00		500 00	4,000 00	89,325 00	2,000 00	18,615 00	126,440 00
Jefferson	50,000,000 00	4,500,000 00	250,000 00		350,000 00	70,000 00	290,000 00	10,000 00	270,000 00	53,740,000 00
King	4,075,000 00	2,504,660 00	4,620,000 00	9,218,025 00	108,442,551 00	8,208,230 00	13,259,024 00	500,000 00	18,600,000 00	174,547,550 00
Kitsap	806,425 00	249,364 00	55,030 00		346,000 00	144,000 00	247,192 00	3,000 00	232,650 00	2,077,631 00
Kittitas	1,878,770 00	874,405 00	263,975 00		967,614 00	237,440 00	594,331 00	8,470 00	884,800 00	5,659,805 00
Lewis										
Lincoln	79,246 00		10,000 00		5,796 00	5,583 00	602,275 00	1,000 00	647,640 00	1,351,640 00
Mason	3,000,000 00	10,000 00	33,345 00		4,000 00	31,130 00	166,015 00	1,000 00	205,382 00	3,450,872 00
Okanogan	5,837,660 00	241,940 00	102,680 00		95,000 00	60,100 00	300,000 00	1,500 00	448,250 00	7,087,130 00
Pacific	392,785 00	2,682,705 00	98,585 00		15,540 00	9,748 00	253,300 00	1,850 00	400,000 00	3,804,513 00
Pend Oreille			77,140 00		16,680 00	28,860 00	180,650 00	540 00	289,140 00	593,010 00
Pierce	389,550 00	84,355 00	264,025 00	1,618,113 00	640,505 00	1,299,660 00	1,640,910 00	69,445 00	2,406,415 00	8,412,978 00
San Juan	120,000 00	20,000 00	47,850 00		1,000 00	10,000 00	60,000 00		163,470 00	422,320 00
Skagit	2,250,000 00	2,000,000 00	120,000 00		420,425 00	600,000 00	1,000,000 00	35,000 00	1,500,000 00	7,925,425 00
Skamania			66,700 00		2,000 00	15,000 00	80,000 00	2,000 00	36,300 00	202,000 00
Snohomish	63,400 00	343,225 00	282,128 00	2,050 00	127,560 00	214,805 00	641,695 00	15,685 00	1,365,645 00	3,056,193 00
Spokane	230,335 00	167,415 00	272,470 00		1,028,635 00	2,008,055 00	2,503,000 00	6,160 00	7,240,160 00	13,453,230 00
Stevens			71,550 00				429,984 00		949,190 00	1,450,724 00
Thurston	125,000 00	3,500,000 00	40,000 00		150,000 00	100,000 00	375,000 00	13,400 00	290,100 00	4,593,500 00
Wahkiakum	8,100 00	210,000 00	25,000 00		1,500 00	2,000 00	20,000 00	800 00	92,990 00	360,990 00
Walla Walla	556,465 00	576,000 00	480,630 00		490,000 00	570,000 00	1,118,350 00	70,000 00	988,500 00	4,849,945 00
Whatcom	375,000 00	499,498 00	69,850 00		1,683,983 00	573,890 00	1,149,185 00	75,000 00	2,653,944 00	7,080,350 00
Whitman	20,000 00	950,000 00	250,000 00		150,000 00	650,000 00	1,200,000 00	7,210 00	778,000 00	4,005,210 00
Yakima	1,125,340 00	90,000 00	275,000 00		394,760 00	560,450 00	1,888,750 00	102,000 00	3,015,000 00	7,451,300 00
Totals...	\$80,414,060 00	\$24,602,577 00	\$9,677,025 00	\$11,128,188 00	\$116,435,348 00	\$16,591,901 00	\$40,253,794 00	\$1,142,248 00	\$51,150,926 00	\$351,306,077 00

* No other report received.

† Does not know.

State of Washington

TAX HISTORY FOR STATE PURPOSES SINCE STATEHOOD TO DATE

Year Levied	Assessed Value	LEVIES IN MILLS													Total Mills Levied	Total State Tax	No. of Levies	Where Found		
		Gen. Fund	Military	Bond Interest	School	Public Highway	Permanent Highway	University	College	Hollingham Normal	Cheney Normal	Ellensburg Normal	Centralia Normal	Capitol Buildings					Reclamation Revolv.	Bonus
1889	\$125,165,165 00	2.50	0.12	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2.62	\$327,945 99	2	Aud. 1889 Pg. 91
1890	201,448,136 00	3.01	0.20	0.10	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3.31	666,793 34	3	Computed
1891	278,882,450 00	3.00	0.20	0.025	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3.225	899,395 96	3	"
1892	248,804,810 00	2.50	0.20	0.025	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2.725	677,993 11	3	"
1893	283,110,032 00	2.95	0.20	0.05	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3.20	905,952 51	3	Equal 1893 Pg. 25
1894	226,245,182 00	2.87	0.20	0.05	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	3.12	705,431 30	3	" 1894 " 37
1895	204,190,377 00	3.00	0.20	0.20	3.16	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6.56	1,340,846 14	4	" 1895 " 17
1896	204,677,668 00	3.06	0.20	0.20	3.21	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6.67	1,363,966 06	4	" 1896 " 33
1897	226,130,784 00	2.60	0.20	0.20	2.70	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5.70	1,238,945 31	4	" 1897 " 7
1898	226,996,294 00	2.40	0.20	0.20	2.60	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5.40	1,225,776 51	4	" 1898 Sch. D
1899	229,137,539 00	2.50	0.20	0.20	3.75	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6.65	1,523,739 09	4	" 1899 Pg. 34
1900	237,576,523 00	2.20	0.20	0.20	3.80	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6.40	1,520,471 00	4	" 1900 " 66
1901	260,180,734 00	2.20	0.20	0.20	5.00	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7.60	1,977,366 09	4	" 1901 " 32
1902	260,940,138 00	2.20	0.20	0.20	5.00	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7.60	1,983,146 00	4	" 1902 " 56
1903	276,988,569 00	2.50	0.10	.....	5.00	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7.60	2,105,116 00	3	" 1903 " 40
1904	298,460,979 00	2.50	0.10	.....	5.00	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7.60	2,268,298 00	3	" 1904 " 52
1905	328,542,525 00	2.50	0.10	.....	5.00	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	7.60	2,496,922 00	3	" 1905 " 66
1906	530,200,882 00	1.80	0.10	.....	3.25	0.25	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5.40	2,863,132 00	4	" 1906 " 36
1907	573,070,528 00	3.00	0.20	.....	3.00	0.50	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6.70	3,839,576 00	4	" 1907 " 54
1908	748,593,942 00	1.60	0.20	.....	2.50	0.50	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	4.80	3,593,250 00	4	" 1908 " 44
1909	790,419,826 00	3.00	0.20	.....	2.50	1.00	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	6.70	5,295,812 00	4	" 1909 " 58
1910	906,247,944 00	2.10	0.15	.....	2.18	1.00	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5.43	4,920,926 00	4	" 1910 " 76
1911	955,125,934 00	2.10	0.20	.....	2.00	1.00	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5.30	5,062,167 00	4	" 1911 " 85
1912	1,065,986,251 00	1.23	0.11	.....	1.90	0.50	1.00	0.475	0.325	0.09	0.09	0.07	.....	.....	.....	.....	5.79	5,819,449 00	10	" 1912 " 90
1913	1,014,475,027 00	3.00	0.11	.....	1.90	1.25	1.50	0.475	0.325	0.09	0.09	0.07	.....	.....	.....	.....	8.21	8,937,525 00	10	" 1913 " 94
1914	1,031,901,667 00	2.45	0.11	.....	1.96	1.00	1.50	0.475	0.325	0.09	0.09	0.07	.....	.....	.....	.....	8.07	8,327,447 00	10	" 1914 " 90
1915	1,031,277,499 00	1.25	0.20	.....	2.00	1.00	1.50	0.475	0.325	0.09	0.09	0.07	.....	.....	.....	.....	7.00	7,218,942 00	10	" 1915 " 98
1916	987,339,609 00	1.85	0.20	.....	2.10	1.00	1.50	0.475	0.325	0.09	0.09	0.07	.....	.....	.....	.....	7.70	7,602,515 00	10	" 1916 " 88
1917	1,000,082,749 00	1.35	0.30	.....	2.10	1.00	1.50	0.74	0.45	0.152	0.13	0.108	.....	0.50	.....	.....	8.83	8,330,689 00	11	" 1917 " 80
1918	1,035,983,644 00	1.80	0.30	.....	2.24	1.00	1.50	0.74	0.45	0.152	0.13	0.108	.....	0.50	.....	.....	8.92	9,240,573 00	11	" 1918 " 78
1919	1,060,620,838 00	3.00	0.30	.....	2.06	1.00	1.50	0.74	0.45	0.152	0.13	0.108	.....	0.50	0.50	.....	10.44	11,072,882 00	12	" 1919 " 80
1920	1,193,923,659 00	4.50	0.30	.....	4.80	1.00	1.50	0.74	0.45	0.152	0.13	0.108	.....	0.50	0.50	.....	14.68	17,526,799 00	12	" 1920 " 80
1921	1,177,239,240 00	2.25	0.20	.....	5.34	1.00	1.50	1.10	0.67	0.20	0.159	0.12	0.10	0.50	0.50	1.00	14.639	17,233,605 23	14	Computed