

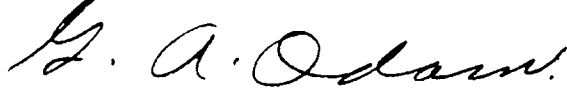


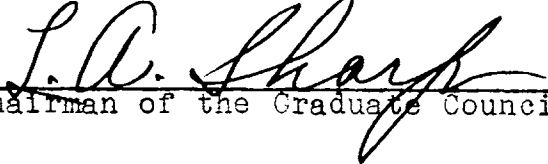
ANALYSIS OF CERTAIN WEALTH IN TEXAS TO DETERMINE POSSIBLE
SOURCES OF TAXATION FOR EDUCATIONAL PURPOSES

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THESIS

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By

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CHAPTER I

INTRODUCTION

Nature and limitation of the problem

The problem of taxation is one that employs the efforts of the best minds in school government. The means of financing public education in Texas determines largely the types of schools afforded to the children of the state. The principle of taxation is essential to modern popular government.¹ The problem of determining new sources of wealth is very difficult. An equitable system of taxation has never been accomplished. In analyzing certain sources of wealth for possible taxation purposes one can not attempt to justify them. He can only show what sources are available and show that some states are using them. One can not enumerate every item of wealth. He can only give the groups as classified by accepted sources. The tax problem of today has become much larger than the state itself.² One can not anticipate the method of executing certain tax procedure or justify it as a satisfactory one. It is the aim of this problem to find the things expressed in the title of this thesis. To analyze certain sources of wealth as given by accepted

¹ N. S. Holland, "Taxation" Research Bulletin No. 11 Texas State Teachers Association p. 15

² Ibid, p. 15

sources is the first part of the problem. The second part determines the possible sources of wealth. The third part shows the amount of revenue that could be expected from each if some known method of taxation is applied. The fourth part justifies the sources of wealth as being more equitable than the system of taxation now in use in Texas.

Justification of the problem

The rank of Texas with the other states in the United States in the expenditure for public and elementary and secondary schools per pupil is thirty-fifth.³ The composite rank based on eleven criteria in the June issue page 52 in the "School Board Journal" is 41. Texas spends \$43.84⁴ per capita, New York spends \$124.32, Nevada spends \$112.16 per capita and California spends \$111.13⁴ per capita. This does not prove Texas needs more money, but it does justify making the study.

The lowest average for an entire county rendering land in 1935 was .80 per acre. The highest average rendition was \$481.58. The average for the state was \$9.60.⁵ The lowest price at which horses and mules were rendered in any one of ten counties was \$2.34. The highest average for any one of ten counties was \$34.84.

³ Research Bulletin Volume XV Number 1, N. E. A. Jan 1937

⁴ Ibid. pp. 43

⁵ State Comptroller's Annual Report 1935 pp. 126-139

The median for the state was \$20.45.⁶ The lowest average for which cattle was rendered in ten counties was \$2.22 and the highest was \$11.80. The median for the state was \$10.08.⁷ The lowest value for which railroads were rendered in any one of ten counties per mile was \$3,830, the highest value \$14.752 and the average for the state was \$8,231 (calculated to the nearest dollar). The lowest average for which vehicles were rendered in any one of ten counties was \$27.27, the highest was \$193.36 and the average for the state was \$80.24 (nearest cent). Many factors may enter into determining the value of property by counties but too wide variation can hardly be justified. Especially is this true with the ten counties analyzed. The above facts may or they may not show there are possible sources of taxation in the properties listed, but it does show a wide variation and further justifies a study of the problem. Present administrative and legislative trends in searching for new sources of taxation makes the problem an important one.

¹ State Comptroller's Annual Report 1935 pp. 126-139

² Comptroller's Annual Report 1935 pp. 138-139

The following quotations from C. M. McFarland may further justify a study of the problem and establish the fact that the inequalities in our present tax system exist.

It might be said that the taxable property of Texas is conservatively estimated at not less than \$12,000,000,000.

However, only about \$3,000,000,000 is put on the tax rolls.

The above facts show that under the administration of the present system of taxation there is opportunity for tax evasion, but through proper administration those evasions could be eliminated. The following quotations further substantiate this contention.

The Census was taken in 1930 and the percentages here given are the values assessed that same year. Twenty-four counties assessed their land at less than 20 per cent, some as low as 12 per cent, of the actual value; 107 counties assessed their land at rates ranging from 20 percent to 35 per cent of actual value; 36 other counties assessed at rates ranging from 36 per cent to 50 per cent of actual value; 21 counties at rates ranging from 51 per cent to 75 per cent of actual value; the remaining 46 counties assessed at values from 76 per cent to more than 100 per cent. Generally speaking, the same percentages prevailed in 1934, very few counties lowering their values more than 5 per cent.

Livestock is being rendered at widely varying values.

Cattle were assessed at \$5.00 per head and less in 12 counties, at \$10.00 and less in 143 counties, and from \$10.00 to \$20.00 in the remaining counties.

Horses and mules were assessed at an average of \$45.00 in one county, while the adjoining county valued at \$12.00. In another case, one

county valued at \$44.00 while the adjoining county shows values of \$3.00.

In another county they were assessed at \$600,-000 the state tax being \$4,620.00 while in an adjoining county with a larger number of horses and mules, they were assessed at \$18,000, the tax being only \$138.00.

Automobiles were assessed in one county at a value producing state taxes of \$5,677.21, while an adjacent county with nearly twice the number of registered vehicles were rendered at a value that produced the trifling sum of \$121.00.

Mercantile stocks were assessed in one county at \$22,670.00 producing a state tax of \$174.55. The net retail sales were \$4,748,000. In an adjoining county the sales were a half million less, but the Merchants State Tax was \$4,248.00.

Manufactured articles and materials produced state taxes of \$1,721.48 in one county where the census gives the value of manufactured articles as only \$800,000, while in another county with \$82,000,000 census values the tax was \$1,720.64, seventy-eight times as much business but actually paying 84 per cent less tax.

Money is taxable. There is approximately a billion dollars in Texas but less than 1 per cent of it is put on the tax rolls.

The above quotations may be considered accurate because they are from authoritative sources. Because they reveal the existing inequalities of the tax system they help to justify the contentions of the succeeding chapters.

Sources of data with method of analyzing

The data are summaries and tables from tax records of the states of the United States. Totals are used in most cases with a calculation made from some standard, or rate by a particular state, or a group of states. The rates are not changed for those properties now

taxed in Texas. If seemingly discrepancies exist they are pointed out and the results shown.

If premises are made they are substantiated by logical theory in light of the data.

Organization of the thesis

Chapter II is an analysis of natural resources as they are listed by the Bureau of Economic Geology of the University of Texas. To show how much taxes Texas is now getting from those sources and what she would get if they were all taxed at some accepted rate.

Chapter III is an analysis of wholesale business as is found in the United States Census Report, 1935, Volume II, pp. 92-94. Retail business was purposely omitted to avoid double taxation. A more detail classification is used. The total wholesale sales are used and some accepted rate applied to determine the amount of taxes that would be produced.

Chapter IV is an analysis of those businesses now paying occupation taxes and the businesses that might pay taxes as they do in other states. Calculations are made on all businesses at the same rate as those businesses now paying occupation taxes.

Chapter V is calculations for income tax made from the total amount of income as shown by the United States Statistical Abstract with some standard rate to determine the amount of tax to be expected from individual

and corporate wealth.

Chapter VI is a summary of foregoing chapters with conclusions drawn in the light of the findings. The proposed plan of taxation is justified as being more equitable than the present system. Proposals are made for a future study and in light of the findings in this thesis.

The ad valorem tax could be used to raise four times as much revenue as at the present if all property were assessed on the basis pointed out on page 4. However, as this tends to leave intangibles untaxed and to throw the burden on only one type of wealth the analysis is made for other possible sources of wealth available for taxation purposes.

CHAPTER II

ANALYSIS OF NATURAL RESOURCES AS POSSIBLE SOURCES OF WEALTH

Only two classes of natural resources are used for analysis in this chapter. Water is the class outside this chapter, because a tax on water as fisheries, ferries, and pleasure resorts will bear their part in the form of license upon occupations. The classes to be used are minerals and a part of the natural resources coming from the soil. Lumber is the only natural resource coming from the soil used in this chapter. Such minerals as are produced in quantity shall be used as a possible source of taxation. Those minerals that are so scarce or high cost productions that their production might be prohibited by a severance tax shall not be considered.

Eight states including Texas charge a severance tax upon some of the natural resources.¹ Some state may charge on one natural resource and not charge on another because one may be scarce and another abundant. The rate also varies according to the value, but the analysis used here is based on per cent. This per cent is approximately the same as is now used for oil, sulphur, and cement in Texas.

¹
N. E. A. Bulletin July 1, 1935

The state levies a severance tax on three natural resources. These are oil, sulphur, and cement. The state produces 391,097,000 barrels of oil valued at \$371,664,170 she produces 3,715,500 barrels of cement valued at \$6,422,807, she produces 192,410 long tons of sulphur valued at \$24,373,818.² The total amount of the three above items is \$402,460,795.

In 1935 oil well owners and operators paid \$3,985,865.18 to the available school fund, sulphur companies paid \$655,117.40. Cement companies paid \$41,651.07.³ This makes a total of \$4,682,633.65 from the three natural resources that went into the available school fund. The amount of taxes paid represents 1.13 per cent of the actual value of oil, sulphur, and cement. The total value of all natural resources coming from the earth and excluding those below \$100,000 is \$43,461,968. Using the above amount and 1.13 per cent as the rate the amount for the available school fund is \$6,141,120.23.

Most of the natural resources now bear an indirect tax, but the system could be greatly simplified if they were taxed as they are severed from the earth. If lumber bore the same rate as calculated above and using the values found in United Census report it would yield \$38,229,82.

2

Texas Almanac, Supplement 1937, p. 17

3

Comptroller's Annual Report 1935, p. 45

This represents \$3,383,170 worth of lumber at 1.13 per cent. This would make a total of \$6,179,350.05. This amount represents a gain of \$1,434,194.20 over the present amount of taxes on natural resources. This amount represents the total amount of severance tax on all resources less oil \$3,985,865.18, sulphur \$655,117.40, cement \$41,351.07, casinghead gasoline \$10,774.78, natural gas companies \$51,747.42. The total for the five items above is \$4,745,155.85 which is the total amount of tax received by the available school fund from natural resources. Natural gas and casinghead gasoline are now taxed as business tax.⁴

The natural resources that undergo some refining or manufacturing process that would add to their value by virtue of that process when sold in units will also bear a sales tax, as shown in chapter IV. Typical of such items are gasoline, rosin, turpentine, natural gas, tar and others.

A constitutional amendment or regulatory law may be necessary to prevent wealth from natural resources escaping to other states. Such regulations, if necessary, could be affected by assessments being made as the resource leaves the ground. To enforce payment a law is necessary

granting the state power to levy on potential wealth of private companies if production is stopped to evade tax payments. If the state were compelled in this manner to take possession of any natural resource for taxes the gross returns would exceed the 1.13 per cent assessment specified in this analysis and thereby increase the amount of income. Under such a plan the amount of money to the state would never be decreased until the resource was depleted. The above premise is substantiated by such well known authorities as Rufner in Principles of Economics and Veblen in Absentee Ownership and The Engineers and the Price System.

In light of the above analysis the state could reasonably expect the amount of severance tax to increase above the amount estimated. The system would then be more equitable for two reasons. First, it would tax all natural resources on the same basis as those now taxed.

Second, it would shift the burden of taxation to sources with utility value and thereby leave less room for tax evasion.

TABLE I
TEXAS MINERAL AND VALUE FOR 1935 6

Mineral	Quantity	Value
Asphalt, tons	74,597	241,442
Carbon black, lbs.	375,000,000	11,000,000
Cement, barrels	3,715,300	6,422,807
Clay products . . . . .	. . . . .	1,500,000
Fuller's Earth, tons	40,925	391,641
Gypsum, tons	179,433	1,812,605
Lignite, tons	721,558	557,000
Lime, tons	38,833	362,636
Limestone, tons	1,000,400	1,188,752
Mercury, flasks (75 lbs.)	4,000	288,000
Natural gas, 1000 cu. ft.	642,360,000	102,100,000
Natural gas gasoline, gal.	504,160,000	16,838,944
Oil, barrels	391,097,000	371,664,170
Salt, tons	268,809	563,514
Sand and gravel, tons	4,895,362	2,839,513
Silver, troy ounces	1,000,930	719,440
Stone, tons	192,410	133,341
Sulphur, long tons	1,554,101	24,673,818
Miscellaneous . . . . .	. . . . .	164,345
Total . . . . .	. . . . .	\$543,461,138

This table is submitted to show the total amount of natural resources in Texas. All natural resources of less than \$100,000 were omitted. Helium was omitted because the United States Government owns all of the helium in the State of Texas.

TABLE II

VERMONT STATE FINANCE--YEAR ENDING AUGUST 31, 1936

Code and Source	Amount
Balance, September 1, 1934:	
Treasurer's Cash Balance	\$1,575,477.89
Less: Warrants Payable	91,792.98
Net Cash Balance	<u>1,483,684.91</u>
Bonds	198,631.00
Total Cash and Bonds	1,682,315.91
Receipts:	
111 Property Tax--ad valorem	10,218,341.45
121 Poll Tax	749,449.24
Business Taxes:	
132 Gross Receipts Taxes:	
Express Companies	11,999.84
Telegraph Companies	12,625.04
Gas, Water, Light & Power Co.	134,996.11
Collection Agencies	1,044.70
Car Line Companies	630.46
Cement Companies	41,651.07
Natural Gas Companies	51,747.42
Washinghood Gas Companies	10,774.42
Text Book Publishers	5,523.18
Telephone Companies	106,138.91
Oil Well Owners and Operators	3,766,865.18
Sulphur Companies	855,117.40
Pullman Companies	8,647.32
Reginors Tax	656.31
Adjustments--Two General Revenue	5,471.62
Total Gross Receipts	<u>75,032,888.44</u>
Insurance Companies Occupation Tax	523,248.33
135 Occupation Tax--miscellaneous Businesses	52,402.96
135 Cigarette Stamp Tax	4,104,269.45
141 Motor Fuel Tax	8,189,761.54
155 Beer Stamp Tax	<u>533,523.50</u>
Total Business Taxes	18,421,094.27

Report of Comptroller 1936, p. 45 (Partial Table)

TABLE III

SUMMARY OF PROPERTY AND VALUE IN THE STATE OF TEXAS AS
SHOWN BY THE ASSESSMENT FOR THE YEAR 1935⁸

Description	Number	Value
Land assessed in acres	170,068,840.33	\$1,331,871,437
Town lots		1,168,543,666
Horses and mules	1,158,762.00	23,747,695
Cattle	4,204,151.00	43,426,690
Jacks and Jennets	2,314.00	33,560
Sheep	5,081,637.00	10,342,739
Goats	1,744,532.00	1,583,765
Hogs	355,331.00	981,285
Dogs	4,473.00	50,708
Automobiles, Carriages, etc.	931,327.00	77,145,175
Goods and Merchandise		131,326,886
Material and Manufactured articles		17,364,513
Manufactured tools and implements		63,418,137
Steam Engines and Boilers		10,506,533
Money of Banks and Bankers		2,431,799
Credits of Banks and Bankers		2,131,785
Money other than Banks		1,544,405
Money on Hand on Deposit		3,678,748
Credits of other than banks		4,261,371
Stocks and bonds		2,958,603
Shares of Capital Stock		1,947,776
Properties of companies and corporations		47,741,642
Miscellaneous Property State and National Bank Shares	1,137,139.00	29,079,433
Railroad assessed in Miles	16,428.87	136,256,749
Rolling Stock		20,219,029
Intangible Assets of railroads		35,326,354
City Railroads		4,589,845

TABLE III CONTINUED

Description	Number	Value
Interurbans Telephones and Telegraph Lines Assessed in Miles	115.08 24,833.44	360,030 34,442,877
Steam and Other Vessels	968.00	5,772,486
Pipe Lines	15,290.24	96,434,739
Pipe Lines		14,691,710
Total Tax Rolls for Counties . .		23,800,046,096
Deduct: Homestead Exemptions		608,437,775
Total Tax Valuation for Dates 1955		3,191,608,321

This table is submitted for the purpose of comparing the present tax system with the one proposed in this thesis.

8

Annual Report of the Comptroller of Public Accounts of the State of Texas, 1955, p. 139

TABLE IV
SHOWING GROSS RECEIPTS TAXES⁹

Express Companies	11,999.84
Telegraph Companies	12,625.04
Gas, Water, Light & Power Co.	134,996.11
Collection Agencies	1,044.70
Car Line Companies	630.46
Cement Companies	41,615.07
Natural Gas Companies	51,747.42
Casinehead Gas Companies	10,774.42
Text book Publishers	5,523.18
Telephone Companies	106,138.01
Oil Well Owners and Operators	3,985,825.18
Sulphur Companies	655,117.40
Fullman Companies	8,117.32
Debitors Tax	666.31
Adjustments--Due General Revenue	5,471.32
 Total Gross Receipts	 5,032,827.41

This table is submitted to show what properties are paying gross receipts tax and as a basis of calculating the gain in sales tax.

9

Comptroller's Annual Report 1935 p. 45

CHAPTER III
ANALYSIS OF WHOLESALE BUSINESS AS POSSIBLE SOURCE OF
SALES TAX

According to the National Educational Association Research Bulletin twenty-three states now charge a sales tax designated as such. Others have a sales tax classified as "Other taxes".¹ Texas charges a sales tax on gasoline, cigarettes, and beer.² The available school fund received \$4,104,269.45 for cigarette tax, \$8,189,761.54 for motor fuel tax (gasoline and other motor fuel) and \$533,523.50 in 1935 for beer stamp tax.³ The total for the above is \$12,827,554.49. These are the only businesses that bear a sales tax for school purposes.

According to the United States Census Report there are 123 wholesale kinds of businesses in Texas selling \$1,531,540,000 worth of goods.⁴ Some of these pay a gross receipt as shown by Comptroller's Annual Report for 1936, page 45.

In addition to cigarettes, gasoline, and beer

¹ N. E. A. Bulletin, July 1935

² Ibid.

³ Comptroller's Annual Report p. 45

⁴ Census of Business: 1935

Wholesale Distribution United States Department of Commerce
Bulletin Vol. II pp. 92-94

all commodities not taxed as natural resources for educational purposes, or not taxed for other state purposes shall be included in this calculation.

Gas, not municipally owned, shall bear the same per cent rate as other commodities for sales purposes. The most common rate employed by the largest number of states is 1 per cent for school purposes.⁵ Texas sold \$888,300,000 worth of electricity, \$41,320 worth of turpentine and \$113,140 worth of tar in 1936.⁶ The three items above shall be included in calculating the amount of sales tax.

Electricity is classified in the sales tax field because measurable units are sold. The above is not true with telephones, baseball parks, and other such occupations that are classified in the occupation tax field. Electricity, turpentine, tar and natural gas were added because they were not included in the United States Census Report of wholesale types of business used as data for this chapter.

Using the total sales for all other types of businesses and adding to it electricity, turpentine and tar, and excluding those items bearing a severance tax the total

1

N. E. A. Bulletin, July 1935

2

Statistical Abstract United States pp. 684-693

Oil Paint and Drug Reporter July 7, 1937 p. 20

amount of sales tax for school purposes would be \$38,954,578 which is a gain of \$26,127,024.

The above amount was obtained by approximating natural gas at the wholesale price of 30¢ per 1000 cubic feet and adding that to the total obtained by adding the total value of all businesses not taxed and multiplying by 1 per cent. To this total was added the amount now received by the available school from gasoline, beer and cigarettes.

A sales tax with a low rate levied on goods with monetary value in the process of exchange has an advantage over ad valorem tax on potential wealth. Horses, mules, land and other properties upon which an ad valorem tax is now assessed may not exchange for money value for a period of years. The converse is true with wholesale goods that may exchange several times during one year.

The term money will be used to denote all those things that are customarily accepted in payment for goods, or in settlement of other obligations, within a given economic or political area.

The present system of taxation is supposed to tax money in banks, notes, and cash on hand, but it was shown in the first chapter of this thesis that \$9,000,000,000 of wealth is escaping taxation. It is

⁷
James, Cyril F. Jr. The Economics of Money, Credit and Banking. The Ronald Press Co., N. Y. 1935 p. 20

therefore, true that a sales tax properly administered by a centralized commission would tend to eliminate some of the tax evasion and would not discriminate against the small consumer. A single tax system with a high rate might discriminate against the small consumer, but the multiple tax system proposed in this analysis only proposes a tax upon goods which the individual actually buys or sells.

The above facts are shown further in other chapters, but if the consumer has no income above the exemption rates, has no occupation tax to pay, or is producing no goods upon which a severance tax is charged he has only one tax to pay and that at a very low rate. If he has one, or more of the other types to pay he is able to pay them, or he could not justify his staying in business. If the sales tax resulted in a raise in prices higher than the amount necessary to pay the taxes some regulation may be necessary to govern such conditions. If the raise in prices represented an increase in profits a tax on income, as proposed in chapter V, which bears a higher rate would serve as a check on such practice. An income tax report would reveal failure to report other taxes. With the induction of any new systems of taxation some governmental regulations are necessary and laws have to be passed to enforce their operation. This would be necessary to regulate

a sales tax. The small per cent sales tax would not materially raise prices if properly regulated by adequate laws. There would be no great danger of transporting wholesale goods into Texas for the purpose of retail sales in order to evade taxation for three good reasons. First, Arkansas, Louisiana, Oklahoma, and New Mexico all have a sales tax which are higher than the rate proposed here.⁸ Second, the cost of transportation would be greater than the amount of taxes if the goods were transported any appreciable distance. Third, the fact that other sales tax on gasoline, cigarettes and liquors are returning a considerable amount in taxes establishes the fallacy of such contention. If all the above were not true government regulation could control the tax on wholesale goods within the state. Because some commodities do not carry a sales tax and because there would be less opportunity of tax evasion under the system analyzed in this chapter one can reasonably justify a sales tax on all wholesale goods. It is, therefore, shown by the data of this chapter that there is a possible source of taxation in the sales tax category, and it is justified as being equitable by logical reasoning in light of well known practices and economic laws for it does distribute the tax burden and

⁸

N. E. A. Bulletin, July 1935

decreases the opportunity for tax evasion for the following reasons: First, reports would be made to a centralized commission. Second, taxes are paid on goods representing money exchange and all persons participating in buying goods would share in tax payments. Third, sales taxes proposed in this chapter are not taxed for other purposes except as they represent unexempt income or severance commodities.

CHAPTER IV
ANALYSIS OF CERTAIN OCCUPATIONS FOR POSSIBLE SOURCES OF
OCCUPATION TAX

Texas now receives taxes from many occupations. The available school fund receives one fourth of the occupation tax. There are 7,753 types of businesses in Texas.¹ Some of them are taxed and some are not. The comptroller's report shows \$567,623.04 occupation tax paid to the available school fund by insurance companies. Insurance companies in Texas pay two or three per cent on gross premiums for life insurance and from $\frac{1}{2}$ to 1 per cent on hail, storm, fire, and marine insurance with $\frac{1}{4}$ allocated to the state available school fund.² The total premiums paid in Texas for all forms of life and accident insurance is \$160,090,006 and for hail, storm, fire and marine insurance is \$34,726,950.³ Using the minimum .5 per cent the available school fund should receive \$800,450 from life insurance, and using the minimum .0125 per cent for hail, storm, fire and marine insurance the available school fund should receive \$43.408 from this source. The total is \$843,858 for insurance companies

This would exceed the amount of occupation tax now paid by

¹ United States Census of Business: 1933 Retail Distribution Vol II p. 92

² N. E. A. Bulletin, July 1936

³ Texas Almanac, Supplement 1937, p. 33

insurance companies for school purposes \$276,235. Banks and bonding companies pay no occupation taxes in Texas. In this analysis the average bank deposits and other resources as shown in table V are used. The same rate is used for calculating the amount charged insurance companies for school purposes. That rate is .5 per cent of average bank deposits and other resources. The total amount of the above according to Texas Almanac pp. 32-33 is \$2,645,658,000. The amount paid to the available school fund by banks would be \$13,228,890. This amount does not represent a tax on banks. It is a tax on wealth of all individuals, or corporations regardless of where it is. According to the United States Census Report in Volume II, 1935 of types of businesses the amount of other businesses that would bear their part of the occupation tax is \$1,531,540,000. Calculating this amount by the same method used for insurance companies and banks the amount for the available school fund is \$7,857,700.

Another possible source of occupation tax, not included in any of the above calculations is telephones. The number of telephones in Texas is 541,525.⁴ Calculating at the same rate as above and using \$3.00 a month as the average monthly rate for local and long distance service for twelve

⁴ Statistical Abstract United States 1936, p . 680

months the amount of tax is \$924,745. The total amount from all sources of occupation tax in this chapter is \$22,675,193. This represents a gain of \$2,107,570 to the available school fund from occupation tax.

Twenty eight states have some form of occupation tax.⁵

The following tables, V and VI, show the amount of annual premiums paid and a report on banks. These tables are used in making calculation for possible occupation tax from those sources.

The minimum rates now charged insurance companies were used for calculations in the entire analysis of occupations. If the average had been used the increase would have been about 25 per cent more. The types of businesses used are those not classified as wholesale businesses. Table VII page 29 describes some of these types of businesses. All persons engaged for services as school teachers, lawyers, and other professional services were not considered because they pay an income tax as individuals if they are above the exemption rate. Farmers were not considered because they do not receive money for services rendered the public. They are taxed in this thesis on an income basis.

¹ N. C. S. Bulletin, July 1935

TABLE V

SHOWING THE AMOUNT OF INSURANCE PREMIUMS PAID TO TEXAS
AND OUT OF STATE COMPANIES IN 1935⁶

TEXAS BUSINESS OF LEGAL RESERVE LIFE INSURANCE COMPANIES
1935

<u>Texas Companies</u>	<u>Out of state companies</u>	<u>Total</u>
\$ 30,659,880	\$37,038,369	\$68,440,983

TEXAS BUSINESS AND FRATERNAL BENEFITS SOCIETIES 1935

<u>Texas Societies</u>	<u>Out of state Societies</u>	<u>Total</u>
\$ 1,775,148	\$ 4,549,561	\$ 7,324,709

TEXAS BUSINESS OF ASSESSMENT LIFE AND ACCIDENT ASSOCIATION
1935

<u>Texas Companies</u>	<u>Out of state Societies</u>	<u>Total</u>
\$ 4,508,521	\$ 642,157	\$ 5,150,678

LEGAL RESERVE FRATERNAL AND ASSESSMENT

<u>Texas Companies</u>	<u>Out of state Companies</u>	<u>Total</u>
\$ 36,943,549	\$42,230,087	\$79,173,636

TEXAS BUSINESS OF FIRE AND MARINE INSURANCE

<u>Texas Companies</u>	<u>Out of states companies in Texas</u>	<u>Foreign in Texas</u>	<u>Total</u>
\$ 2,963,134	\$25,207,071	\$4,510,898	\$32,862,103

TABLE V CONTINUED

MUTUAL FIRE AND MARINE INSURANCE

<u>Texas Companies</u>	<u>Out. of States Co.</u>	<u>Total</u>
\$748,722	\$1,115,847	\$1,864,569
TOTAL		\$194,816,677

This table shows data used in determining amount of occupation tax on insurance companies.

TABLE VI. STATE BANKS IN ⁶
TEXAS. December 31, 1936

<u>Number of banks</u>	<u>Total Loans and discount</u>	<u>Total resources</u>	<u>Gross Deposits</u>
426	\$64,248,000	\$228,877,000	\$169,652,000

NATIONAL BANKS

June 30, 1936

<u>Number of banks</u>	<u>Total Loans and discounts</u>	<u>Total resources</u>	<u>Gross Deposits</u>
456	\$316,381,000	\$1,192,845,000	\$1,054,284,000

This table is used to show the total amount of money in banks that should bear an occupation tax.

⁵ Texas Almanac Supplement, 1937, pp. 32-33

⁶ Ibid.

There are no data available as to the actual cash, or redemption value of insurance in force in Texas. The only available data shows the amount of insurance in force and the amount of premiums paid for the year of 1935. As the calculations are made on premiums paid there is a possible fruitful source of taxation on the basis of cash value of insurance. In order to determine the amount of actual value of insurance a law needs to be passed requiring all companies doing business in Texas, insurance and otherwise, to report to the comptroller the actual status of their companies. This report must include all the assets including notes, stocks, profits, and total value of businesses. If such regulation is administered it is evident the amount of money for the school fund would be increased over the amount calculated in this chapter.

The analysis of the types of business that would pay an occupation tax includes those now paying an occupation tax, and others not paying an occupation tax. It was shown in the first chapter of this thesis that the total taxable property conservatively estimated was not less than \$12,000,000,000, but only \$3,000,000,000 is put on the tax rolls. It is evident, in the light of the above fact, that much tax evasion is practiced. As these calculations are based on types of business not paying a sales or severance tax and because there is much tax evasion it estab-

blishes the fact that an occupation tax is more equitable than the present system for the reasons found below. First, the proposed system of .5 per cent on all occupations not paying a severance or sales tax prevents them from escaping their part of the tax burden. Second, the proposed system eliminates the ad valorem tax (as proposed in the last chapter of this thesis) and, thereby distributes the tax burden to all occupations and does not discriminate against the few that are now paying an occupation tax while others are not.

TABLE VII⁷

SHOWING THE AMOUNT OF OCCUPATION TAXES BY SERIES COLLECTED
WITHIN THE COUNTIES BY TAX COLLECTORS FOR THE PERIOD BEGINNING
JULY 1, 1934, AND ENDING JUNE 30, 1935

Series Number	Kind of Occupation	Amount 1934-1935
1	Alley, Nine or Ten Pins	1,764.64
2	Auctioneers	562.77
3 to 6 inc.	Baseball Park	391.73
7	Cigarette Dealers	220.00
12	Brokers--Stock and bonds	974.52
13	Brokers-	7.50
14	Brokers	275.00
15	Concert	488.50
17	Brokers & Com. Merchants	227.08
18	Brokers & Com. Merchants	870.00
22	Exhibitions	86.00
23	Menageries	140.00
24	Medicine Show	467.40
29	Flying Jenny	674.93
31	Rodeos . . . . .	. . . . .
32	Pistol Dealers	1,274.78
36-39	Ice Dealers	60.00
40	Insurance Adjustors	587.50
41	Insurance agents	2,300.00
52	Loan agents	150.00
53	Medicine specialists	146.74
54	Medicine vendor	790.38
69	Pawn broker	11,547.12
79-80	Race track	465.67
83	Ship broker	25.00
84	Shooting gallery	1,389.57
85	Skating rink	777.92
86	Street Railroad	603.56
97-98	Zoological Exhibition and Carnival	1,907.79
99	Marble Machine	100.00
100	Vending Machine	50.00
101	Vending Machine	60.00
102	Vending Machine	51.00

TABLE VII CONTINUED⁷

Series No.	Kind of occupation	Amounts 1954-1955
110	Theatre	529.05
111	Theatre	1,273.41
112	Theatre	1,910.43
114	Theatre	3,159.68
115	Theatre	641.63
116	Theatre	1,041.67
117	Theatre	652.50
118	Theatre	9,603.12
119	Loan Broker	300.00
122	Endless Chain system	631.97
124-25	Circus and shows . . .	7,151.15
Totals . . . . .	. . . . .	226,370.61

This table is used to show the difference in the amount of occupation tax now being paid compared to the amount proposed.

⁷ Report of Comptroller 1935, p. 266

CHAPTER V

ANALYSIS OF INCOMES FOR POSSIBLE SOURCES OF INCOME TAX

Twenty-three states now charge income tax for educational purposes.¹ Arkansas charges from 1 to 5% on individual incomes and 2% on corporate incomes. Delaware charges from 1 to 3% on personal net income. Massachusetts charges from 1½ to 6% on incomes, 1½% on business incomes, 3% on gains from dealing in intangibles and 6% on interest and dividends. Minnesota charges from 1 to 5% on personal and corporate incomes. Montana charges from 1 to 4% on personal incomes. New Mexico charges 1 to 4% on personal net incomes and 2% on corporate incomes. South Carolina charges from 2 to 5½ on personal incomes. South Dakota charges 1 to 8% on net and corporation incomes. Utah charges from 1 to 5% on individual incomes. Vermont charges 2 to 4% on net personal incomes and 2% on corporation income. Washington charges 4% on corporation income.² Other states, like California, charge income on personal and corporate incomes, but it goes into the general fund and is not ear-marked for schools.³

¹ N. E. A. Research Bulletin July 1, 1935

² Ibid.

³ N. E. A. Research Bulletin August 1932 pp. 6-7

Texas charges no income tax for state purposes. The United States government collected \$16,304,000 on individual and corporation incomes in Texas in 1935.⁴ The legislature has attempted to pass an income tax measure several times, but has failed.

As shown above, some of the states use a graduated scale for income taxation and others charge a flat rate. The amount of income allocated to the available school fund may also vary. As no precedent has been established in Texas, any rate would be more or less arbitrary. But to be consistent with the average used in most states 1.5 per cent is conservative and is the approximate average. This rate is used in making the calculations below.

According to the United States assessments after exemptions are made the annual net personal income in Texas is \$299,578,000 and the annual corporate income after exemptions is \$57,596,000. This is a total of \$357,174,000. At 1.5 per cent the annual income to the available school fund is \$5,357,610.

The legal procedure and manner of inducting an income tax system is not a part of this problem, but it would have to be regulated by proper laws.

An income tax properly administered is an equalizer of all other tax systems proposed in this thesis. If

4

Statistical Abstract of United States 1935, pp. 183-92

a corporation or an individual escapes taxation on any one of the other methods there is a possibility of checking that corporation, or individual upon an income tax report. There is little possibility of the amount of income tax decreasing under the proposal made here for three reasons. First, as the ad valorem tax is eliminated part of the amount of the ad valorem rendition would show up in the income column. As stocks and bonds, notes and other chattel are assessed .5 per cent occupation tax, all above the exemption schedule would bear an income tax also. This means that all taxes, occupation and other taxes would be allowed in making up the exemption schedule. Second, as property values would be appraised by a centralized commission less opportunities for tax evasion would be possible. Third, as exemptions are granted fewer delinquencies would be prevalent as the tax is placed on goods above living expenses and operating costs.

Using the definition that money is what money does⁵ horses, mules, land, vehicles and all other properties now taxed, and not taxed, that have an appraised value so that the total is above the exemption rate that is allowed by the Federal Government would bear an income tax at the rate of 1.5 per cent. All current products would be taxed for

¹
James, Cyril F. The Economics of Money, Credit and Banking. The Ronald Press Co. New York, 1935 p. 20

the year they are produced at the appraised, or capitalized market value and if held as investments they would be taxed again for each year they are held so that one might not make an investment of land, cotton, livestock and other properties and escape taxation on them in succeeding years. In this respect horses, cattle, land, and other properties help to make up the exemption allowance of each individual and all above that exemption would pay income tax at rent capitalized value if it represents earnings and at appraised value if it represents savings. Then, income in this analysis does not only represent income for the current year but it represents income as long as it is above the exemption level and pays an annual income tax until it drops below that income tax exemption level. By this analysis the large corporations operating in Texas would pay more taxes as they raise the value of their stocks, and the producer would not pay any tax until he passed the exemption schedule. The above does not try to justify the corrupt practices of big businesses. The analysis is merely made to show that an income tax system is a source of taxation and is more equitable than an ad valorem tax that was adopted in 1876 when real estate and personal property was about all that had any value at that time, or could be taxed, and as those values have decreased a shift to other properties seems to be more equitable than the old system.

The calculated 5,357,610 that would be added to the school fund by an income tax is based on the United States income tax report. In order to prevent any overlapping of taxation below the exemption rate the 249,668,788 received by severance, sales and occupations tax is now subtracted from 5,357,174,000 and leaves 5,107,505,212 income in Texas. This amount would return 24,642,578 to the available school. The above number is used for calculating the total amount of tax gain to the schools as represented in Chapter VI.

The same exemptions rates used by the United States are used in the calculations in this chapter.

TABLE VIII

INDIVIDUAL INCOME TAX RETURNS BY STATES, 1935

U. S. Printing Office, Washington D. C.

Net Income 1933	\$299,578,000
Amount of taxes yielded	969,000
Corporation Income tax returns	\$ 57,598,000
1935	
Income Taxes	\$ 8,335,000
Total Corporate and Individual Income Tax	\$ 16,304,000

This table is used to show the amount of income tax received by the National government on individual and corporate wealth in the United States in 1935 after tax exemptions were deducted.

CHAPTER VI

CONCLUSIONS

The total amount of severance tax as found in Chapter II is \$6,179,350 for school purposes, which is a gain of \$1,434,194 over the present amount.

The possibilities in sales tax is greater than any other source. The analysis in Chapter III shows a possibility of \$38,254,578. This represents a gain of \$26,127,024. The legal manner of putting a sales tax into operation is not a problem of this thesis. The analysis does justify a sales tax on all wholesale goods as a possible source of taxation for school purposes.

In spreading an occupation tax over all occupations it appears that a more equitable distribution of tax burden will result. The total amount of occupation tax available in light of the analysis in Chapter IV is \$22,675,193. The calculations of occupation taxes were not confused with sales taxes. A sales tax is considered a per cent tax on each separate bill of goods sold. An occupation tax is a license to do business, or a fee charged for doing business. The occupation tax is proposed for businesses other than wholesale. It includes banks, insurance companies, retail business, pleasure resorts and all others not classified as wholesale businesses.

The amount of license, or fee charged is determined by the amount of business done, and assessments made on a per cent basis. In the light of data, it seems that an occupation tax that would gain \$22,107,570 for the school fund is justified as a possible source of taxation if that tax is equitable and just as shown in chapter IV.

In chapter V it is shown that income based on the United States rendition and assessed at the average rate applied in other states would yield is \$4,642,578 to the available school fund.

In compiling all the totals of each chapter the total gain to the school fund is \$54,311,366.

The total amount spent for public education in 1936 from the available school fund was \$29,694,473.¹ That amount was apportioned at \$19.00 on 1,562,867 children.² If the increase as shown by the findings in this analysis were adopted the apportionment could be \$46.82. This amount represents \$2.98 more than was spent by the state, county, and local groups in 1936.

It is believed, in light of the findings in these analyses, that a Tax Commission, set up in a similar manner as recommended in "Taxation" Research Bulletin Number 11, of the Texas State Teachers Association, could find many

¹ Public School Directory, Vol. XII 6, Austin, Texas November 1936, p. 108

² Ibid, p. 108

sources of potential taxable wealth in Texas. It is not recommended that the present system of taxation be completely abandoned. It is recommended, however, that the present system be re-modeled and some phases abandoned. If all personal and real estate properties were shifted to income a more equitable system would be the result.

It is not recommended that land and other property be exempt, but that it be capitalized on rent capitalization basis, or appraised value and be assessed the same rate for income tax above exemption schedule.

It has been found in this study that a thesis might be worked out on any phase of the present tax system. It has also been found that upon any division of this thesis much data needs to be compiled; especially is this true relative to insurance companies, and intangible property.

The analysis has not included a study of the tax system other than the part concerning the educational system of public schools. It has not delved into the administration of the permanent school fund because the revenue from the permanent school fund does not represent a tax. It has not questioned the poll tax. The average amount of poll tax received for the years 1934, 1935 and 1936 was \$925,652. The amount received from the permanent school fund in 1935

3

Comptroller's Annual Report, 1935, p. 45 and 134
 p. 33 and Texas Almanac Supplement 1937 p. 38

was \$3,027,400. By adding the amount received from poll tax and the permanent school fund to the total amount proposed in this thesis the total amount is 77,119,783, or \$49.35 per pupil (calculated to the nearest cent). This represents a net gain of \$5.51 over the average spent for all purposes, state, local and federal, for the year of 1936.

It is, therefore, concluded that in light of the findings of this thesis a system of taxation embodying the principles set forth in foregoing chapters is more equitable than the present system and provides a source of taxation sufficient to finance the public schools of Texas at a much higher standard than is now in effect. The points that this system would provide sufficient money has been established with the view in mind that proper laws would be necessary in order to make the proposed system successful. The equity of the proposed system has been established because it has been shown that the tax burden has been placed more evenly upon those able to pay the tax and also upon those receiving large benefits from government.

It is not necessarily concluded that the various sources analyzed shall be utilized in the ratios used in this study, nor to the extent suggested. The analysis has shown that the sources are available and that this wider use would be equitable and practical. Ratios and rates to be used would depend upon additional study of economic factors conditioning

them.

Budgetary practice itself would require that needs for each year be established and taxes assessed in accordance with needs.

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APPENDIX

TABLE IX

STATE'S DOLLAR: HOW OBTAINED

Summary showing how the state's dollar was obtained, fiscal year ending August 31, 1936, as reported by the State Comptroller of Public Accounts.⁷

<u>Property</u>	<u>Amount of tax</u>
Ad valorem tax	\$16,126,948.68
Inheritance tax	1,143,711.54
Poll tax	1,685,244.80
Undistributed receipts from collectors	441,824.95
Gross Receipts tax	12,255,844.91
Insurance Companies occupation tax . . .	2,270,492.15
Occupation (Other)	191,101.79
Cigarette stamp tax (net)	5,459,586.39
Fur tax	11,547.54
Fish and oyster tax	955.37
Liquor stamp tax	1,731,047.55
Wine stamp tax	51,496.07
Highway motor fuel tax (net)	36,242,686.72
Franchise tax	1,587,367.41
Insurance Commission maintenance taxes .	218,244.15
Beer stamp tax (net)	1,361,639.25
License (including auto)	6,295,467.13
Total taxes and licenses	87,074,766.41
Fees and permits	3,570,563.53
Land sales, rentals and royalties . . .	5,210,049.71
Sales of commodities and properties . .	193,183.73
Court costs, fines and suit settlements	829,865.24
Interests	3,995,059.20
Miscellaneous revenues	684,130.97
County Federal and other aid	25,533,996.40
Total Revenue Receipts	127,092,235.19

⁷

Texas Almanac, Supplement, 1937 p. 42 (partial table)

TABLE X
 MANUFACTURED PRODUCTS 1935⁸

Value of product	\$1,076,174,704
Value added by manufacturer	312,327,704
Total	\$1,388,502,408

TABLE XI
 NUMBER OF TELEPHONES AND MILES OF TELEPHONE LINES IN TEXAS,
 1935⁹

Number of telephones	541,525
Number of miles of lines	2,793,715
90 telephones for every	1,000

TABLE XII
 ELECTRICITY PRODUCED IN TEXAS FROM ALL SOURCES, 1935¹⁰

Kilowatt hours	2,538,000,000
Average price . . . . .	.35

TABLE XIII
 LUMBER PRODUCED IN TEXAS¹¹

Board feet	111,000,000
Total Value	2,373,172

8

Texas Almanac Sup. 1937, p. 26

9

Statistical Abstract, 1936 p. 692

10

Statistical Abstract, U. S., 1936

11

Lumber, p. 680-681

TABLE XIV

TURPENTINE AND ROSIN VALUE, 1935-6¹²

Gallons of turpentine	103,300
Barrels of rosin and tar (500 barrels) . .	5,657

TABLE XV

APPORTIONMENT OF AVAILABLE SCHOOL FUND¹³

Enumeration of Children six and under eighteen, September 1, 1936 . . .Total	Amount apportioned at \$19.00 per capita
In Independent School Districts 996,403	\$18,931,657
In Common School Districts 566,464	\$10,762,816
1,562,867	\$29,694,473

12

Turpentine and rosin, p. 684

13

Public School Directory, Vol. XII, No. 16, Austin,
Texas, November, 1936, page 108