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COLORADO TAX PROBLEMS



COLORADO AGRICULTURAL COLLEGE

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PREFACE

Persons interested in taxation have requested the Colorado Agricultural College to publish the series of articles by G. S. Klemmedson on taxation and public finance in a permanent form, so that they might be studied at leisure, referred to, or passed on for the information of others interested in the tax problems of Colorado.

To meet this demand the articles are reprinted in this pamphlet together with an article by President Chas. A. Lory. These discussions cover a wide variety of problems on taxation and public finance both from the state and local standpoint.

Arthur Robinson, associate editor, gave valuable assistance and cooperation in the preparation of these articles. In editing, more recent figures have been substituted where they are available, and news style has been omitted where possible.

L. A. Moorhouse.

COLORADO TAX PROBLEMS

Injustice in Taxation

(Editorial by A. M. Biggerstaff in Sterling, Colorado, Advocate, July 18, 1930)

No man lives to himself. The frontiersman who rung his livelihood from the forest and the pioneer who subdued the virgin soil came near to living alone. Their lives were little more than a bare and precarious existence, however, and their social wants were few. Government gave them little and asked little from them.

The order is changed. New social and political structures have evolved and have become complex. Man is a gregarious and social being. What he is and what he has cannot be separated from what others are and what others produce by their labors.

Economists speak of "unearned increment." The term is used to define the cumulative value of property accruing by virtue of changes in the social order.

There are investments, for example. One earns money thru his contacts with others. He stores it away in the form of securities, the income from which is dependent wholly upon the labors and abilities of others. He must use discernment, to be sure, but having decided wisely, he merely sits back and clips the coupons. By title, it is his wealth; in reality it is nothing without the security afforded by government, the earning capacity afforded by the social and economic order. Multitudes of others are working for him. There is every reason of justice that such wealth, particularly that which yields income, should be taxed.

Taxpayers Face State Bond Debt of 108 Millions

October 30, 1929

Colorado taxpayers are facing a bonded indebtedness of more than 108 million dollars—an average per capita debt of approximately \$100.

The average per capita debt has grown in Colorado from \$25 in 1913 to \$79 in 1922 and to \$100 at present. This per capita bonded indebtedness now is distributed as follows: \$10 representing the state's bonded indebtedness; \$3 the general county

and county school bonds; \$28 the school district bonds, and \$59 the municipal bonded debt.

This indebtedness of 108 million dollars places a heavy burden on the taxpayers of the state because the money loaned must be repaid eventually to the lenders with substantial interest. This repayment must be financed, in the long run, by taxation.

Such indebtedness means that Colorado taxpayers will be compelled to repay practically \$2 for every \$1 originally borrowed. This is because these bonds run for many years and draw interest annually until they are finally redeemed.

Only five other states had larger per capita debts than Colorado in 1925. In the same year Colorado's ratio of per capita debt to per capita wealth was higher than such ratios in 28 other states.

This state bonded indebtedness of 108 million dollars includes only state, county, school district and municipal bonds, and does not include the bonds issued by the Pueblo conservancy district and many irrigation districts or the 15-million-dollar bond issue for the construction of the Moffat tunnel.

This measure of state and local indebtedness does not include the floating debt, which is a significant item in the finances of some counties and school districts. The floating debt of the district schools totalled 2 and one-half million dollars in 1928.

Methods of reducing indebtedness and preventing additional debts are suggested as follows:

1. Prevent further indebtedness by the "pay-as-you-go" plan.
 2. Do not issue bonds or go in debt for payment of operating expenses.
 3. Insist that officials do not exceed current revenues in governmental expenditures.
 4. Where possible, replace old-type bond issues with newer and less expensive forms such as serial bonds.
 5. Insist upon wide publicity of governmental expenditures to prevent waste, extravagance and unintelligent and inefficient management by officials.
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Coloradoans Pay Seven Millions Interest Yearly on Indebtedness Dec. 18, 1929

There is one big reason why taxes are high, stay high and keep getting higher in spite of all efforts to reduce them.

This reason for continued high taxes can be stated in three words: Interest on indebtedness!

Colorado's annual interest bill on the state's total bonded and floating indebtedness of \$149,601,092 for all governmental divisions amount to \$7,545,926, at an average interest rate of 5.04 percent. This annual interest charge is equivalent to 15.7 percent of the total property tax levied annually in the state for all purposes!

In other words, Colorado taxpayers pay out in interest on the state's indebtedness every 6 and a half years, an amount equal to the total property tax levied annually in the state!

Interest on bonded indebtedness in Colorado amounts to \$7,071,172 annually, and is distributed as follows: State, \$541,751; general county, \$100,753; county school, \$51,656; school districts, \$1,497,473; municipalities, \$3,181,299; Moffat tunnel, \$822,100; Pueblo conservancy district, \$150,000; and drainage and irrigation districts, \$724,850.

Annual interest charges on floating indebtedness amount to \$474,850. The interest figures on bonded indebtedness of counties, schools and municipalities were compiled from information collected by the Colorado State Board of Immigration.

These debts are heavy burdens on the taxpayers because the money loaned must be repaid eventually to the lenders, and because this payment must be financed, in the long run, by taxation, which, at present, is unfairly distributed.

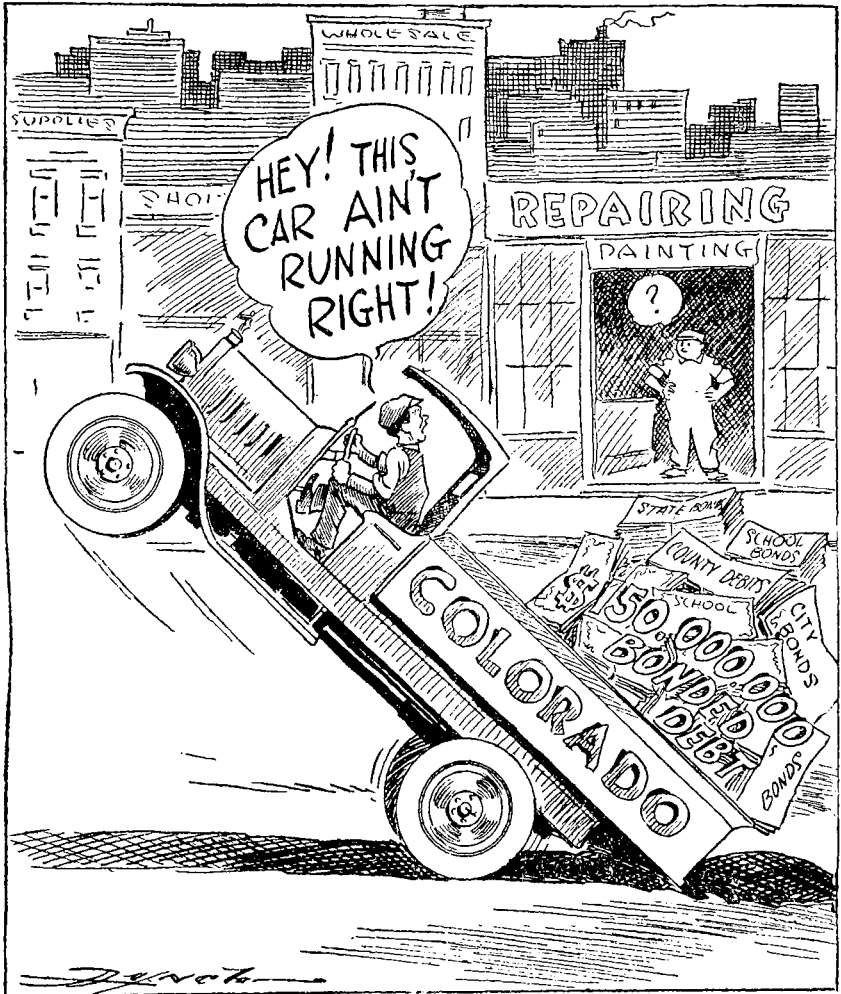
A study of the public debt of Colorado shows that there is need for some sort of supervision of the debt-creating practices of all local governments, with power to suspend or to compel revision of contracts and other commitments which appear to involve an improper or an unwise use of public credit.

Taxes can never be lowered materially unless we first halt the spending of money secured by levying taxes upon next year and the next generation, which is what debts and bond issues mean.

Colorado needs a local-debt statute prohibiting the refunding of bonds except in so far as this may be necessary in effecting a transition to the serial form of issuing bonds. Time and again sinking-fund bonds have matured with no money in the sinking fund to retire them, necessitating a new loan to pay the old one.

Sound finance and simple justice demand that bonds be retired during the lifetime of the improvement for which they were

SOMETHING WRONG



—LYNCH IN ROCKY MOUNTAIN NEWS

issued. A considerable portion of the bonds were issued to cover deficits because the governments failed to levy a sufficient tax to meet necessary current expenses.

The first principle of sound public finance is to limit current expenditures to current income. All counties, cities and school districts should set up adequate accounting and budget systems for efficient control of expenditures.

Taxpayers in State Refuse to Vote Bonds

March 12, 1930

Awakened to the dangers which lurk in voting for excessive bond issues, Colorado taxpayers have been turning "thumbs down" on bond issue proposals in rapid succession in recent years.

The people of Colorado are wide awake to the fact that \$2 must be repaid for each dollar borrowed, and that borrowing money increases taxes.

New bond issues authorized thruout the state in 1928, except special municipal bonds, totalled less than 1 million dollars—exactly \$882,000—the smallest amount voted in any year for more than 10 years. Bond issues authorized by taxpayers within the state reached their peak in 1917 when a total of 15 and one-half million dollars in bonds was authorized.

School bonds voted in Colorado have decreased from almost 9 million dollars in 1923 to \$666,000 in 1928!

General county bond issues decreased from \$736,000 in 1916 to \$120,000 in 1927, and to no issues whatever in 1928!

General municipal bonds voted in 1917 totalled 14 and one-half million dollars; in 1928 they totalled only \$216,000!

Apparently large increases in taxation, to which interest payments on bond issues contributed, and recent difficulties in local finance, have made the voters wary.

Colorado, thru its officials, is gradually adopting a "pay-as-you-go" policy for financing public improvements. This policy does not mean that all improvements are being financed from direct taxation. A portion of the cost of many large highway and school projects is being included in current tax levies, or financed from other sources of revenue than bonds.

For example, the state highways are largely on a "pay-as-you-go" plan, financed from the gasoline tax. Counties are building permanent roads and schools by direct taxation rather than resort to bond issues.

Marked improvement in Colorado's bonded indebtedness should encourage officials to continue, if possible, the present healthy trend of reducing debts, rather than return to a policy of issuing bonds in amounts common during 1917 to 1925.

Improvement in the debt situation of the local and state governments in recent years reflects the wisdom of taxpaying voters in curtailing the issuance of bonds since 1925.

Colorado Taxes Up 217 Percent in Recent Years

Nov. 14, 1929

It is estimated that the total amount of taxes paid thruout the state in 1928 was approximately 54 million dollars—an increase of more than 217 percent over 1912.

As large as these property and special taxes are they do not represent the total revenue collected in the state.

Property taxes increased in Colorado from \$16,869,042 in 1912 to \$46,244,540 in 1926—an increase of 174 percent!

This huge increase in taxation, a large share of which is borne by the farmers of the state, has been found in a study of taxes in Colorado.

During the period from 1912 to 1926 state general government revenue increased 4.8 percent, county revenue 24.9 percent, town revenue 126.7 percent and school revenue 295.7 percent.

The state highway department was not created until 1913. In 1926 state highway expenditures totalled \$4,427,938.

The first step in the direction of reducing costs of government and improving the services is generally admitted to be a better undertaking by taxpayers of the facts controlling and determining the financial conditions of governments.

Balance sheets and other financial statements showing operating costs of any division of government should be as readily available to its stockholders—the taxpayers—as are such statements to stockholders in a private business, in order that necessary improvements may be brought about.

Finally, there can be no adequate reform of taxation which does not rest upon an intelligent and scientific examination of public expenditures, governmental organization and administrative efficiency.

Colorado Farm Taxes Triple in 15-Year Period

Feb. 12, 1930

Farm taxes in Colorado have more than tripled from 1913 to 1927!

During this period, farm and ranch property taxes in the state increased 305 percent, or from 5 and one-half million dollars in 1913 to 16 and one-half million dollars in 1927!

This tripling of ranch and farm taxes during these years is the result to some extent of an increase in farm acreage. It is largely due, however, to a combination of higher assessed valuations and higher general property tax rates.

The average property tax rate increased from \$13.80 per \$1,000 valuation in 1913 to \$30.49 in 1927, or an increase of 221 percent. The greater part of this increase in the farm tax burden resulted from the expansion of local taxes, which represent more than 85 percent of the farm and ranch taxes.

During the past few years, taxes have come to be felt in many portions of this state as a crushing burden on the agricultural community.

Future revisions of the Colorado tax system should therefore lay no additional tax burden upon the farmers and ranchmen until they are placed on a parity with other economic groups. Practically the only tax paid by farmers is the general property tax. Therefore, every effort should be made to relieve the general property tax burden by drawing from other sources such increased revenues as are necessary.

Farm Taxes Rise and Corporation Taxes Fall Here

Dec. 4, 1929

Assessed valuations of Colorado farm real estate, or land and improvements, for the purpose of taxation, has increased 154 million dollars in the last 15 years!

In the same period the assessed value of public utilities and railroads in the state, assessed solely by the state tax commission, has decreased 27 million dollars!

Assessed valuation of intangibles such as bank stock, money and credits has shown no increase since 1913!

All real estate paid 61 percent of the property tax in 1912 and 64 percent in 1928, but the burden is being shifted to the farmers' land and improvements. Farm lands and improvements were assessed 9 percent more in 1928 than in 1912, while town-and-city property was assessed 7 percent less.

In other words farm real estate amounted to 30.2 percent of the total assessed property in the state in 1928, compared to 21.3 percent in 1912. City real estate represented 33.3 percent of all assessed property in 1928, whereas it amounted to 40 percent in 1912.

In 1928 mining, timber, coal and oil property comprised 3 percent of the total assessed property in the state; merchandise, 5 percent; livestock, 4 percent; manufactures, 2 percent; corporations, 15 percent; intangible property, bank stocks, money, credits and accounts, 2 and one-half percent and miscellaneous, 5 percent.

Real estate bears virtually the entire burden of taxes in Colorado, and as a result millions of dollars of other sources of wealth go free.

In Colorado individuals securing income from salaries, professional earnings and investments go practically untaxed. Those whose property escapes taxation and whose income bears no direct taxes nevertheless enjoy the benefits of our excellent schools, good roads and other specific public services and improvements.

The general property tax has been the means of introducing very marked inequalities, not only among different classes of property thru the continued tendency toward escape and evasion, but among different classes of individuals whose possessions are of one or another type, and finally among different communities.

A tax which operates in this way must be condemned. In short, the most important tax problem that confronts the taxpayers of Colorado today is that of selecting a suitable tax or combination of taxes to replace the general property tax.

Property Income Usually Ignored by Tax Officials

April 23, 1930

One of the most serious defects in the administration of the Colorado general property tax is that tax officials ignore the income from property in making assessments, except in the case of corporations.

There is nothing in the state constitution or laws to prevent assessors from considering property income in fixing the assessed value of property.

In fact, assessors do consider income when assessing corporation property, but when it comes to assessing farm lands there is little or no attempt made to adjust land values to the income producing power of the land. Farms and ranches are assessed without regard to what they produce.

As a result, no matter what a farmer's income may be for any year, his taxes are an expense of a fixed amount. Should he lose all his crops the taxes would still remain a charge against him. Even if his net income for the year is nothing, his tax is unchanged.

Railroads and other corporations are taxed in Colorado by the state tax commission in proportion to their earning power, but the earning power of the farmer is not considered.

The result is that in unfavorable seasons similar to the present, with heavy losses from sheep feeding, the tax collector

leaves the farmer and the stockman in the condition of a picked chicken!

Since property taxes are paid from current income and are burdensome or light according to the degree to which they consume income, it would seem advisable for assessors to consider this side of the question when making assessments.

During the last 50 years the property tax has been levied upon "actual market value," "cash value," "sales value," or some other form of value that decidedly is not the value any reasonable business man would place upon the earning power of property.

Values are opinions only. It is not so material as to what these standards of value are, as that uniformity shall prevail. Property owners are willing to bear the same burden as their neighbors, but no more. Discrimination between farm or ranch lands and corporations is certain to lead to an endless amount of confusion, partiality and favoritism, if not greater evils.

State Farmers Are Taxed Unfairly

March 19, 1930

The operation of the tax system in Colorado in recent years has been a case of plucking the goose so as to secure a maximum of feathers with a minimum of squawking, with the farmer taking the part of the goose doing the least amount of squawking.

For example, the state and local governments in Colorado collect more revenue from the farmers' poultry than from all the jewelry, gold and silver, diamonds and other precious stones owned by all the people of the state!

The state collects more revenue from the farmers' agricultural machinery than from all the bank deposits in Colorado!

It collects more taxes from livestock than from all the intangible property, stocks, bonds and credits in the state, which are valued at close to 1 billion dollars!

Earnings alone received by Colorado citizens from rents, royalties, interest and dividends in 1927 totalled almost 55 million dollars. This huge amount of earnings is 5 million dollars more than the total assessed value of all livestock in the state, yet livestock paid more taxes in 1927 than did the billion dollars worth of stocks, bonds and other intangibles!

In this state only 5 percent of this billion dollars in intangibles is taxed by the state and local governments, altho all of it is taxed under federal income tax laws.

This comparison suggests a serious defect in the present system of taxation in Colorado. Altho the general property tax is supposed to tax all property uniformly, seldom, if ever, are all classes of property equally assessed. The burden upon real estate, upon home owners and farmers has become notorious as a result.

State Farmers Pay Four Times Too Much Tax

April 9, 1930

Farm taxes are four times too much in Colorado!

If people paid taxes according to their ability to pay, less than \$7 out of every \$100 of net income would be necessary to operate state and local governments, schools and roads.

But some people pay no taxes, while others pay much more than 7 percent. Farmers in Colorado pay about \$33 out of every \$100 of net income, or fully four times a fair average rate!

State and local, personal and business taxes paid by individuals filing federal income tax returns for 1927 averaged only \$4.44 out of every \$100 of net income, the bureau of internal revenue reports show.

Two persons in Colorado, with a combined net income of \$713,890 for that year, paid only \$155 in local and state taxes in this state, or about 2 cents out of every \$100 of net income! Since these persons owned no real estate or personal property, except possibly an automobile apiece, they virtually escaped taxation in Colorado under our present tax system. They contributed, however, \$86,268 to the federal government in income taxes.

Internal revenue figures show that persons receiving incomes of over \$5,000 annually pay less than \$5 of every \$100 net income.

There are large classes of people in towns and cities that are bearing almost as great a burden of taxes as the farmers. Those who rent real estate are compelled to pay approximately 30 percent of the property income for taxes. This is true in such cities as Colorado Springs, Delta, Fort Collins, Grand Junction, Monte Vista, Montrose and Rocky Ford.

The general property tax is unfair to all property owners, and particularly to farmers. Several progressive states have been able to find other sources of public income that make the tax burden rest more evenly on the whole population—why not Colorado?

There is no more important job in Colorado than to get the tax system out of the ox-cart class!

Real Estate Owners Pay 90 Percent of School Taxes

May 7, 1930

Ninety percent of the total educational expenditures in Colorado come from taxes on real estate and general property, which includes farm lands and private homes.

The total cost of public education in Colorado amounted to \$31,048,721 in 1927. Of this amount approximately 29 million or 93 percent came from property taxation. The rest came from state aid, departmental earnings, fines, and some federal aid.

Altho property taxes bear practically all of the burden of public-school expenditures, 1 billion dollars of intangibles such as stocks and bonds, and 375 million dollars of personal incomes from wages and salaries annually make no direct contribution to the schools in this state!

Citizens of Colorado do not object to maintaining excellent schools for their children—in fact, they take pride in the high educational standards of the state, and its public school system.

But the owners of farms, ranches, city homes and other real estate do emphatically object to paying 90 percent of the total cost of education in the state, while other huge sources of wealth and income escape taxation!

The public school is not only the largest single object of expenditure in the state, but is also the branch of local government in which the growth of expenditure is greatest.

The most important problem in school taxation is how to keep taxes at the lowest level consistent with the rendering of modern educational service, and how to adjust increased expenditures to natural increase in wealth and population and the ability to raise revenue.

Millions in Intangibles Are Untaxed in State

Jan. 1, 1930

Failure to tax more than about 5 percent of the billion dollars of intangible property in Colorado has increased the tax burdens of farmers, real estate owners and small-home owners.

Federal income tax returns for 1927 show that \$42,706,560 was received in income from interest and dividends, \$10,469,156 from rents and royalties, and \$8,085,886 from the profits from sale of real estate, stocks and bonds by Colorado citizens. These figures indicate that there is 1 billion dollars or more of productive intangibles in Colorado that escape state and local taxation.

This tremendous total is only slightly less than the assessed value of all real estate in Colorado! Yet in 1928 this billion dollars of intangibles was assessed by county assessors at only 40 million dollars, or about 5 percent of the full value as indicated by federal income-tax returns. It seems fairly clear that about 95 percent of the bonds, stocks, mortgages and other intangible property escapes direct state taxation!

No state has ever successfully taxed intangibles as property. Supporters of the low-rate tax on intangibles are destined to be disappointed by the yield of the tax.

Intangibles can be taxed successfully by the state only on the income they produce. Taxed on their net income, they have no better chance of evasion than any other kind of income, and the tax cannot be easily shifted.

Huge Wealth in State Escapes Just Taxation

July 9, 1930

Three-fourths of the total value of all estates appraised for Colorado inheritance taxes in 1929 consisted of stocks, bonds and other intangibles and therefore practically escaped state taxation for years, according to a study just completed.

The 509 estates had a total value of \$31,685,781 distributed as follows: Real estate, \$6,725,273 or 21.2 percent; tangible personal property, \$1,117,028 or 3.5 percent; intangible property, \$23,843,481 or 75.3 percent.

These figures for just 1 year indicate that much of the real wealth of Colorado has not been touched by taxation. The growing tendency to invest huge sums in stocks, bonds and other intangibles instead of real estate, which is to some extent due to the heavy taxes on property, is placing more and more wealth beyond the reach of taxation.

The only way in which the state can tax such wealth is to change our old-fashioned constitution to permit the taxation of income from such investments.

Altho intangibles are supposed to be taxed under present laws, the amount of intangibles on the tax books has shown no increase for 15 years! Our present system permits 95 percent of the wealth in stocks, bonds and other intangibles to escape or evade taxation. This simply means that one man pays and 19 escape.

No state has ever successfully taxed intangibles as property. They can be taxed successfully by the state only on the income

they produce, by means of a progressive income tax system, according to the experience of other states.

An analysis of the 1929 estates mentioned above shows that 138 owned no real estate whatever. Thirty-eight owned real property worth \$1,000 or less. Yet these 176 individuals owned stocks, bonds, notes and bank deposits worth \$5,473,376.

One millionaire had visible taxable property worth not more than \$5,000, and about \$1,015,000 in stocks and assets that could not be reached under present state tax laws. Another Colorado citizen worth \$2,375,000 had real estate valued at less than \$75,000. The remaining \$2,300,000 was in stocks and bonds.

375 Millions in Salary Incomes Escape State Taxation

Jan. 15, 1930

At least 375 million dollars paid Coloradoans in salaries and commissions in 1930 will escape direct local and state taxation, it is estimated.

This is about 42 percent of the estimated total current net income of the state's population derived from all sources, but it does not include fees or commissions of lawyers, physicians, dentists and many other professional people. If it were possible to compute the net income from these sources the percentage would be much greater.

Salaries furnish the bulk of the net income received by the people of Colorado. Yet this income does not bear direct state or local taxes.

For the United States, wages and salaries in 1928 amounted to 51 billion dollars, or 57 percent of the total national income. Agriculture now is producing less than 10 percent of the national income, compared to almost 19 percent in 1918, according to the National Bureau of Economic Research.

Income and Taxation

It is generally recognized that good government requires the burden of taxation to be felt by all citizens, for there can be no healthy interest in government unless the majority of the people feel that they contribute materially toward its support.

It is also strongly felt that taxation should be graduated in accordance with the ability of the citizens to pay, and that, all things considered, the best basis for apportionment of taxes is income. Yet in Colorado individuals securing income from salaries, professional earnings and commissions go practically untaxed and make no direct contribution whatever to the local and

state government unless they own real estate or other tangible property.

Nevertheless, those whose incomes bear no direct taxes, enjoy the benefits of Colorado's excellent schools, roads and other services.

Colorado Needs New Tax System Declares Dr. Chas. A. Lory

March 26, 1930

Equalization of Colorado's tax burden, which is exceptionally heavy upon farm lands and real estate, is impossible without constitutional revision, declares Dr. Charles A. Lory, president of the Colorado Agricultural College.

This conviction, he says, is confirmed by every investigation of our taxing system. These investigations also confirm the belief long held by farmers that agriculture is paying an undue share of the cost of local and state government.

Basing their claim on the fact that property no longer is an index of income, of governmental benefit or of tax-paying power, the farmers of Colorado insist that extensive changes in our revenue system, involving many constitutional amendments, be made.

Among the changes agriculture demands, Dr. Lory says, are the following:

1. Place the state on a cash basis, so that expenditures thruout a year are paid from the same year's income.
2. Reapportion the state for federal and state representation on the basis of the 1930 federal census.

Constitutional amendments required to equalize the tax burden include the following:

1. Elimination of present uniform taxation requirement, permitting:

- a. An income tax on individuals and corporations.
- b. Classification of property for taxation, permitting fair taxation of intangibles, land in process of reforestation and mines in process of development.

- c. Other means of revenue thru a business and occupational tax, and severance tax in addition to the general property, inheritance and sales taxes now in use.

2. Discontinue present state board of equalization and provide for a tax commission whose members are appointed by the governor. This commission should have power to equalize assessments, appoint and remove county assessors, supervise local public indebtedness and the duty of assessing corporations.

3. Limit legislative appropriations to the tax income.

4. Extend a large measure of home rule to counties, limiting the powers of the legislature to load more and more welfare, development and educational activities on counties with no provision for paying for them except thru an increase in general property tax by county commissioners. Require modern budget methods and modern accounting systems under state control and permit consolidation and simplification of county government, a county manager and purchasing agent. Present means of communication and transportation permit effective administration of much larger areas than our present counties; economic conditions make consolidation of counties imperative.

Change Needed in Constitution for Tax Reform

Aug. 20, 1930

Owners of Colorado real estate and farm land can obtain effective tax relief only thru an amendment to the state constitution.

Only an amendment to the constitutional provision that "all taxes shall be uniform upon the same class of subjects" will permit Colorado to employ either of the most widely recognized modern methods adopted in many other states—the progressive state income tax and classified property taxes.

Our investigations show that the constitutional rule requiring taxation of stocks, bonds, bank deposits and other intangible property at the same rates as real estate is inequitable, unenforceable and unsatisfactory. The present system is so impractical that tax officials do not make a serious attempt to enforce it.

Of all the impossible taxes to administer, the present property tax on stocks, bonds and bank deposits is the worst. Since most stocks, bonds and bank deposits yield only 4, 4 and one-half or 5 percent, it becomes evident that the present tax rates of 4 or 4 and one-half percent, which exist in many Colorado communities, would confiscate 60 to 100 percent of the earnings of this class of property, if enforced.

On the basis of federal income tax returns, it is estimated that approximately 1 billion dollars in intangible property, stocks and bonds escapes taxation in Colorado because of this situation.

The purpose of amending the tax provision in our constitution is not to secure more revenue, but to give relief to real estate owners by enabling the legislature to provide modern laws for the fair assessment and taxation of wealth now escaping taxation.

LET'S SLASH THE STRING



—LYNCH IN ROCKY MOUNTAIN NEWS

Until this "uniformity rule" is changed the owners of real estate and farm land must pay more taxes, without prospect of relief from their unjust burdens.

State Income Tax May Yield Five Millions

July 30, 1930

A state income tax on personal and corporate income in Colorado might reasonably yield 5 million dollars annually.

In fact such a tax would have yielded slightly over that amount in 1928, based on the average income tax return of \$4.60 per capita which was obtained in 13 states having income taxes that year.

It is difficult to say just how much an income tax would yield in Colorado, but with a reasonable tax on both corporations and individuals, with good administration and low exemptions, the state might reasonably collect taxes equivalent to the average obtained per capita by the 13 states.

It is essential that a state income tax should not be an additional tax, but that the revenue from it should be returned to the local communities thru a sound system of distribution in order to relieve present burdensome farm and other property taxes!

Good tax systems can be made only from good tax laws. The personal progressive income tax has been acclaimed by authorities as fundamentally the fairest and best tax because it is based solely upon ability to pay.

More than 50 nations and 20 American states now levy taxes on either individual or business incomes or both, according to a study made by the National Industrial Conference Board. Great Britain obtains 46.5 percent of her national revenues from income taxes, Germany 35.2 percent, Italy 24.7 percent, France 20.7 percent, and the United States, 63.8 percent, this study shows.

These countries are widely scattered geographically and differ from one another substantially in the character of their people, the nature of their industries and the form of government.

A review of the income-tax collections from 1922 to 1928 by 13 American states which had such taxes in effect in that period showed an increase of 87 percent, or from 97 million dollars in the former year to 183 millions in the latter. The average per capita yield from these state income taxes increased 71 percent, or from \$2.68 in 1922 to \$4.60 in 1928.

Taxes Fall Unevenly on People of State

Oct. 8, 1930

Three percent of the people in Colorado received 22 percent of the 800-million-dollar total income of Coloradoans, but paid only 12.8 percent of the state and local taxes in 1927, the latest year for which figures are available.

This situation shows a glaring inequality in the distribution of the tax burden among the people of the state, and that those having the greatest ability to pay are not being taxed in proportion to that ability.

Federal income taxation affected only 3 persons in every 100 in Colorado in 1927, according to the bureau of internal revenue. These persons reported a total income of 177 million dollars for the year. State and local tax payments by members of this group averaged about \$3.75 out of every \$100 of income, while Colorado farmers as a class pay about \$30 in such taxes out of every \$100 of income, or about eight times as much!

A state income tax, with reasonable exemptions would tend to equalize taxes in the state, since it would reach those having large incomes, many of whom now practically escape state taxation because they own little real property, but have their funds invested in stocks, bonds and other intangibles.

As has been emphasized before, Colorado's problem is not one of over-taxation, but rather one of poorly adjusted taxation. As a matter of fact, many other states in the union bear heavier tax burdens than does Colorado. The problem here is to so adjust taxes that everyone will be required to pay only his fair and proper share.

Colorado Should Tax Corporations on Net Income

Aug. 27, 1930

Colorado should tax corporations on the basis of their net taxable incomes rather than on their capital stock in all fairness and equity.

Such a change in the method of levying corporation franchise taxes would aid in adjusting and equalizing the tax burden of the state, which now rests so heavily upon real estate and farm lands.

The present method of taxing companies for the privilege of doing business within the state results in discriminations between business concerns because the amount of capital stock, on

AN ANNUAL BARGAIN RUSH



—LYNCH IN ROCKY MOUNTAIN NEWS

which the tax is based, is not a fair measure of the privilege of doing business or of the ability to pay franchise taxes.

Under the present method many corporations escape their full share of the tax load, while others perhaps are taxed too heavily. The present corporation tax system was established in 1907, and today only three other states in the nation have as low a corporation tax rate as Colorado.

Sixteen other states already have modernized their methods of taxing corporations and are now taxing business concerns on the basis of net income. These include California, Massachusetts, Missouri, Montana, New York, Washington and Wisconsin.

Fourteen states tax state banks on the basis of net income and nine tax both state and national banks on this basis. In six states financial organizations other than banks are affected by income taxes. Nine of the states tax railroads on the basis of net income, while six states tax all public utilities on this basis.

The rates applicable to the net incomes of corporations in most states are flat rates ranging from 1 percent in Missouri to 5 percent in Oregon and Washington. In Mississippi and Wisconsin, the rates are progressive.

Four percent of the net income derived from business done within the state would be a reasonable rate and would result in much larger revenues than are obtained under the present system. Such a rate would be less than one-third of the federal corporation income tax rate which yielded the federal government \$7,835,965 from Colorado companies in 1930.

The yield from the present Colorado corporation franchise tax totalled only \$189,582 in 1928.

A study made by the National Industrial Conference Board of over 4,600 large and successful corporations thruout the country, from 1918 thru 1925, led to the conclusion that corporate income taxes cannot ordinarily be shifted to the consumer, and do not affect prices nor prevent the movement of invested capital, except under rare circumstances.

Center All Tax Work Under One Head, is Advice

Sept. 24, 1930

As a matter of economy and efficiency, the administration of all special taxes for state purposes should be centralized in the office of a properly organized state tax commission.

The present system results in weakness of administration thru the division of responsibility. The present administration of state taxes is widely scattered thru various departments, as follows:

- 1.—Gasoline tax by the state oil inspector.
- 2.—Fish and game licenses by the fish and game department.
- 3.—Motor vehicle license, annual state corporation license tax, and insurance premium tax by the secretary of state.
- 4.—Automobile transportation tax by the state public utilities commission.
- 5.—Inheritance tax by the attorney general.
- 6.—Assessment of public utilities and railroads by the state tax commission.

It is quite apparent that no general plan of administration was in mind when these taxes were inaugurated, but that as each tax was put into effect it was parcelled out to some department of state without consideration of any unified plan.

Such division of responsibility is unwise for it undoubtedly costs more to administer these taxes thru the various departments than it would if they were centralized in one department.

The information relative to tax receipts is kept in a different manner by each department, thus making it difficult to secure information as to the amount of all revenue receipts at any time.

It is of the utmost importance for the success of a plan of tax revision that these special taxes for state purposes be efficiently and impartially administered by a board which shall have adequate power, authority and funds to make every part of the plan effective.

County Government Now Antiquated

June 18, 1930

Defects in the organization and management of Larimer County government, which are similar to those which appear in other counties of Colorado, are listed in a new bulletin on "The Costs of Local Government" by G. S. Klemmedson, associate in taxation and finance at the Colorado Agricultural College.

This study of local government was made for the purpose of aiding the agricultural interests of Colorado that carry the largest burden of taxation.

Since the study was completed many of the suggestions for improving the efficiency of the county government have been adopted by county commissioners in Larimer and other counties in the state. Certain other recommended changes cannot be made until the state constitution is amended or revised.

Increasing costs of local government generally thruout the state led to the comprehensive survey of the Larimer county government in the hope that improved methods might be adopted not only in this county but in others as well. Principles of government and not personalities are considered.

Defects found in the Larimer county government which are similar to those in other counties are listed in the bulletin as follows:

1. Lack of unified control over entire county business.
2. Lack of centralized purchasing agent to prevent waste and duplication of purchases.

3. Lack of proper inventories, stock records and other methods used to care for and protect the physical property of the county.

4. Lack of proper accounting system safeguarding expenditures.

5. Lack of budget control safeguarding expenditures.

6. Need for better financial control and methods of financing county and school indebtedness.

The county-manager form of government is suggested as a remedy for the lack of unified control. This will require a revision of the state constitution. The whole system of county government needs to be reorganized and simplified. Simplification of the county government will centralize responsibility and permit the voters to deal more directly with their government.

At present the county commissioners are powerless to inaugurate many of the reforms which are greatly needed because they lack the power to appoint and remove all executive officials.

Larimer county governmental expenditures increased rapidly the last 4 years with expenditures exceeding revenues every year until a large floating indebtedness has been created.

Every department of the county government has shown an increase, with the expenditures for roads, schools and general government showing the largest increases.

The county's floating indebtedness in the form of unpaid warrants has increased 483 percent from 1921 to 1928. This floating indebtedness amounted to \$348,260 on Jan. 1, 1929, an increase of \$144,732 during 1928.

If this indebtedness is funded it will cost the taxpayers about \$750,000 to liquidate it "with absolutely nothing to show for their sacrifice," the bulletin states.

Copies of this bulletin will be sent without charge to anyone interested, by the Agricultural Experiment Station, Colorado Agricultural College, Fort Collins.

Study of County Government for Economy Urged

Sept. 10, 1930

Colorado would do well to follow the lead of a dozen other states in which movements are under way for improvement in county government.

The search for ways and means of reducing the ever-increasing burden of local government has recently led to the appoint-

ment of state commissions in California, New York and Virginia to study reorganization of county governments in the interest of economy.

Investigations of the headless and inefficient organization of the county are being made in from one to four counties in Georgia, California, Maryland, Minnesota, North Carolina and Oregon.

A study made by Klemmedson indicated the following defects in Colorado county government:

Lack of central financial and administrative authority, too short terms for county officials, absence of definite objectives in county government, antiquated business practices such as enrolling taxes and assessments by long-hand, decentralized purchasing by numerous county officials in small lots, absence of inventories and stock accounts, serious lack of budget control, too many employees for the work to be done, the employment of persons who are unqualified for their work, and the constant "breaking in" of inexperienced help, both as chiefs and as clerks.

We cannot hope to have efficiency in county government until we have a unified, co-ordinated government instead of the present decentralized system.

Conditions would be improved if the state constitution were amended to permit the adoption of the county manager form of government. Under this plan the county commissioners could appoint a county manager who would be the administrative head of the county government, responsible for the administration of all departments except the judicial and educational divisions.

Centering Power in Governor Will Permit Taxation Reform

June 11, 1930

Complete reorganization of the state government into a few departments whose heads would be appointed by the governor, and removable by him, would center responsibility in the chief executive and permit urgently needed changes in taxation.

Administrative consolidation began with Illinois, under Governor Lowden in 1917, and has since spread until at present about 15 states have actually accepted it in one form or another. A number of other states are now considering the plan.

Thru administrative consolidation it is possible to simplify the machinery of complicated and disorganized state governments, and thereby eliminate to a large extent poor or extravagant management.

The states which have reorganized their state governments and centered power in the chief executive include Illinois, Idaho, Nebraska, Massachusetts, Washington, Ohio, California, Maryland, Pennsylvania, Tennessee, Vermont, Minnesota, South Dakota, New York and Virginia.

Nebraska was able to reduce her biennial appropriations by more than 2 million dollars and reduce the state tax rate by 33 percent, according to a survey on "Administrative Consolidation in State Governments" by A. E. Buck of the National Municipal League.

Results obtained thru consolidation in other states are given in this survey as follows:

In Pennsylvania the state payrolls were reduced 15 percent and better service was obtained. A deficit of 29 million dollars in the operating funds of the state was paid off in 3 years.

In Tennessee operating expenses of the state were reduced \$1,200,000 during the first biennium, and a deficit of \$2,900,000 was wiped out at the end of 4 years.

Governor Byrd of Virginia estimates that the reforms already adopted in his state will result in an annual saving of \$800,000.

The state of Washington was able to change a million-dollar deficit in the general fund to a million-dollar balance.

Idaho reports that administrative reorganization resulted in greater efficiency, increased revenues and reduced expenditures.

At present Colorado maintains over 75 boards, bureaus and commissions, many of which operate independently of the governor. During the past two decades or more the powers of the governor gradually have been shorn from him until he often has found himself powerless to accomplish certain ends. There has been created such a division of authority in the state government that it is often impossible clearly to fix responsibility.

The equalization of taxes is the most vital problem facing the property owners of Colorado. At present this is impossible because of constitutional limitations and because the control of the tax system lies in the hands of a few powerful boards that are not directly responsible to the governor or to the people.

Colorado may well follow the example of these states in amending its constitutional provisions for taxation and in providing for greater centralization of governmental function, with power of appointment and removal of administrative officers and heads of boards by the governor.

Colorado Needs Less Secrecy in Tax Assessment

June 25, 1930

An "out-in-the-open" system of assessment for taxation would do much to improve tax conditions in Colorado.

Taxpayers should demand complete publicity of all methods used to determine the assessed value of private and corporation property. Present statutes should be so revised as to compel the state tax commission to keep complete and open records, which could be examined by any citizen at any time.

Each piece of property should be shown in the county assessors' records by street address, rather than by the old fashioned system of lot, block and plot, which means little to the average citizen. Every man should know what taxes he ought to pay and what taxes his neighbors pay.

All tax lists should be posted conspicuously in each town and county annually, by house address, with the value of the land, and if there is a building on it, the total value of the property, so that anyone may know exactly what taxes are paid by each taxpayer. Such practices would result in greater equalization of taxes.

The method of assessing corporations by the Colorado Tax Commission has been "as secret as the grave" in the 17 years during which this system has been in force. Records show that corporation assessments in the state have shown practically no increase in spite of the 13-million-dollar increase just announced for 1930.

In other words the valuation of all corporate property in Colorado in 1913 was \$260,241,995, and in 1930 it was almost exactly the same, or \$260,620,138. This latter figure, however, includes \$6,613,253, the value of local corporate property assessed by county assessors, a value which was included in the tax commissioner's total this year for the first time.

It is significant that the increase in corporation assessments this year, which brought the grand total to approximately what it was 17 years ago, was the largest increase during the 17 years and was made effective after a period during which public sentiment has strongly favored higher corporation assessments.

Chicago recently experienced an empty treasury largely as a result of its system of secret assessments, which had been in vogue for over 30 years, according to a recent article by William G. Shepard in *Collier's Weekly*.

This article quotes a Chicagoan who has been prominent in politics for 40 years, as follows:

“Seems to me Chicago has got just seven words of advice to her sister cities: ‘Don’t keep your tax assessments a secret. Keep simple and open tax records so that any citizen can see them at any time. Fix it so that anyone can find out exactly what tax is paid on every piece of land and every building, from skyscrapers to woodsheds.’”

Colorado might well take this advice.

Farmers and Citizens Should Organize to Cut Tax Burden

May 14, 1930

Taxpayers’ associations composed of Colorado farmers and taxpayers generally, should work for reduced public expenditures in every section of the state.

Colorado has too few taxpayers’ organizations that are continually active in the study of local taxation and governmental costs.

As a rule state revenues and expenditures are more carefully watched by organized farm and business groups than local taxation. Yet in 1928 the volume of local property taxation was \$42,608,214, or over 7 and one-half times that of state tax levies.

Local property taxes account for 88 percent of the total tax levies in the state.

Effective investigation of the costs of local government is essentially a community duty, owing to the existence of 2,400 separate taxing districts in the state.

The tax problem challenges the best efforts of the thinking farmers and business men of Colorado, and it will take organized effort to solve the problem.

Colorado needs just such organizations as have been formed in California, where great benefits have been received from the active cooperation between elected agencies in charge of spending public funds and the organized taxpayers who furnished the money.

Individual citizens have neither the time nor the technical knowledge to keep in touch with public officials, to watch the expenditures of tax money, to suggest means for improving the effectiveness of each department of government and to recommend business-like methods in governmental administration. This is the need which the local taxpayers’ association fills.

Sound methods and economical procedure in governmental administration are aided by the knowledge that a wide-awake, well-organized local taxpayers’ association may at any time investigate governmental operations.

AT THE CROSSROADS



—LYNCH IN ROCKY MOUNTAIN NEWS

Public expenditures can be reduced considerably without interfering with necessary services; certainly their rate of increase can be checked, but such reduction will come to the farmer, business man, and the home owner only when their influence for economical expenditures and equitable taxes is as well organized, as powerful and as persistent as the variety of influences which now pull in the opposite direction.

The local taxpayers' association is the logical group for community-wide efforts to bring sound business judgment to bear upon the problems of governmental finance which, after all, are largely problems of a purely business nature.

The successful line of attack upon unnecessarily high taxes is that which goes to the heart of community expenditures rather than seeking merely to redistribute the burden of taxes, altho in Colorado the latter is also necessary.

The equalization of taxes is the most vital problem facing the property owner of Colorado today. Every Colorado farmer, ranchman and property owner should inform himself about the tax situation so he may be able to act and work in a way to get results.

September 24, 1930

Steamboat Springs—For the purpose of fostering greater efficiency in the county government and to protect taxpayers from excessive taxes, a Taxpayers' League was organized at a mass meeting here. Forty taxpayers joined the league, after hearing the report of Arthur L. Baldwin, certified public accountant of Denver, showing that the county had \$61,000 in outstanding registered warrants on which interest charges were mounting. The league is non-partisan in character. Both Democrats and Republicans are members. A. H. Poppen, Steamboat Springs, is president; Alva Jones, Hayden, is vice president and F. R. Carpenter of Hayden is secretary-treasurer.