

**TAXATION OF
CORPORATIONS: REPORT
ON SYSTEMS EMPLOYED
IN VARIOUS STATES**

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Taxation of corporations: report on systems employed in various states by George Clapperton

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GEORGE CLAPPERTON

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IN VARIOUS STATES**

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TAXATION OF CORPORATIONS.

REPORT ON SYSTEMS EMPLOYED IN VARIOUS STATES.

PREPARED UNDER THE DIRECTION OF THE INDUSTRIAL COMMISSION

BY

GEORGE CLAPPERTON,
EXPERT AGENT.



ms. H. M. ...

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TAXATION OF CORPORATIONS.

To the Industrial Commission:

I have the honor to submit herewith a report or compendium of the systems of taxation with especial reference to corporations in each of the following States, viz: Massachusetts, Connecticut, New York, New Jersey, Pennsylvania, Ohio, Indiana, Michigan, Illinois, Wisconsin, Iowa, and Texas. These States were selected, as directed by the Commission, because of their industrial prominence and the varied character of the systems of corporate taxation therein.

It was found that one feature common to all these States, and running through all systems, namely, the general property tax, or as it has been designated, the "American system," applies not only to individual properties, but also, directly or indirectly, to a greater or less extent, to corporate property as well. This observation is doubtless true of all States in the Union.

For this reason it was deemed necessary to set forth the distinctive features of the entire system of taxation in each State applicable to general as well as corporate property, not only as a matter of information, but in order to present an intelligent and comprehensive view of the various methods for the assessment and taxation of corporations, the reasons and principles upon which they are based, and their comparative merits and results.

While in some States there is a marked tendency toward the segregation of corporate property from the general property tax, and its subjection to special methods better adapted to property of that peculiar character and reducing the taxation thereof to a rational and harmonious system, thus far the separation is nowhere complete.

An effort has been made therefore to present the characteristic features, the merits and defects, of the system in vogue in each State, and in some instances the efforts made to reform it and the difficulties encountered, giving especial attention to the taxation of corporations.

In each instance it has been necessary to examine the taxation laws, the work of legislative committees and appointive tax commissions, and a mass of public reports and records in order to present intelligently the system of taxation existing, that your Commission might in the end have a basis for suggestions and recommendations as to changes and reforms in the State systems, and as to interstate action with a view to uniformity of taxation methods applied to corporations.

This investigation has necessarily been somewhat tedious and laborious, and this report, in view of the limitation in the time allotted therefor, is submitted with the consciousness that it is not as thorough and complete as the writer would have desired and not devoid of imperfections. I trust, however, that it may serve the purpose of your Commission.

REVIEW OF CONDITIONS.

In the States hereinafter reported upon are represented substantially all the special methods thus far devised for the taxation of corporations of a quasi-public character, except that of a fixed rate upon net earnings, which is in vogue in the States of Delaware and Virginia, and advocated by some distinguished

writers upon the subject of taxation. It is a simple method, requiring no special elucidation. While, as an abstract principle, it may perhaps be regarded as theoretically correct, still, under existing economic conditions and varied business development of such corporations, and in view of the experience of some States with it, it can hardly be regarded as preferable in actual practice to that of a State tax upon gross earnings.

The inadequacy, under existing economic conditions, of the general property tax, so called, and its utter failure, even under the most rigorous and effective administrative methods that have been devised, to reach for taxation property of a corporate and intangible character, are recognized in all the States named.

It is clear that under this system there are numerous forms of wealth that do not and can not be made to bear a just share of the public burdens, and which in large part evade or escape taxation, and some forms which, when reached at all under the prevailing general property tax, are not equally and uniformly but unjustly and disproportionately taxed, as compared with other property. The inevitable result is that real estate and some forms of personalty are unduly burdened with taxation.

These conditions under the search light of aggressive investigation have engendered positive public and political agitation in many of the States, and have inclined people in every State, keenly alive to prevailing injustice, to vigorous criticism and denunciation of "tax-dodging" individuals and corporations.

While State tax officials, tax commissioners, and writers upon taxation, with considerable justification, inveigh against the efforts of individuals and corporations to evade and escape just taxation, it should in justice be said that there is a lack of appreciation of the fact that the principal cause of these conditions is inherent in the system itself, rather than in a general desire to avoid just taxation. In all the States named vast amounts of property are virtually exempt from taxation, and other property is unjustly and grievously burdened through the operation of bad systems and injudicious laws. It is useless to inveigh against tax dodgers and faulty administration unless the methods of taxing such classes of property are changed.

Representatives of corporate management and others are animated usually not so much by the fear of "equal taxation" as of unequal taxation under the prevailing systems.

Justice Cooley, in his work on Taxation, says:

The assessment of personal property reaches so small a portion of the amount really protected by Government that it might almost be said that laws for the purpose remain on the statute books rather as incentives to evasion and fraud in the dealings of the citizen with the State than as a means of raising a revenue for public purposes.

This might aptly be applied to the system for the taxation of corporations as well as intangible personalty in many of the States, *a system that puts a premium upon evasion and inflicts a penalty upon honesty and weakness.*

The remedies seem to lie in the adoption by the several States, working in harmony so far as may be, of new and modern methods based on correct principles for the taxation of special forms of property, separate and distinct from the general property tax in respect to both valuation and rates of taxation, and a thorough administration thereof.

In the States investigated there has been more or less departure from the general property tax toward the adoption of special methods for the taxation of corporations. With few exceptions, however, efforts in that direction have thus far been devoid of real method or design, and upon the whole "chaos" is the only descriptive term applicable to existing conditions in Commonwealth taxation.

There is a marked tendency in all these States toward making earning power the basis of taxation for quasi-public corporations. Properly directed, this must