

EIGHTEENTH ANNUAL REPORT.
FOR THE YEAR 1908
NEW YORK TAX REFORM ASSOCIATION.
56 PINE STREET, NEW YORK.

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Public attention is centered on the finances of the City of New York and the traction situation; both involve serious problems of taxation and assessment. The increase in the tax rate, and practical exhaustion of the city's borrowing capacity, have brought about criticism of expenditures and of city finances.

The purpose of our Association is to see that the methods of raising public revenues shall conform to correct economic principles. Criticism of items of expense is outside of our work. There is, however, a close relation between revenue and expense and we have therefore helped to secure legislation for the collection of tax arrears, and to improve the city's financial condition.

With the increasing demand for the extension of government services, and with the growing needs of this city in particular, there is certain to be in the next few years an insistent demand for more revenue. It is important to guard against new taxes that will hamper the commerce and industry of the city and state.

Proper economy in the administration of public affairs is desirable, but increase in expenses is not of itself evidence of extravagance. An increase in the density of population causes a still greater necessity for public services, and it causes also an increase in taxable values. Expenditures wisely made, will increase taxable values, and taxes wisely laid will fall in proportion to the benefit conferred.

In every successful business the sources and certainty of income demand consideration as well as the expense account. This rule applies also to municipal business. The method by which taxes are raised is often more important than the amount. A small tax will sometimes fall so heavily upon a particular industry exposed to competition as to destroy it or drive it out of the taxing district; while another district may raise a larger amount of taxes without bearing appreciably upon production or trade.

It seems advisable then that consideration should be given to the plan of excess condemnation recommended by the City Improvement Commission and in general use abroad. If the city would condemn a strip of abutting property when opening a new street, for example, and then sell or lease the new frontages, the increase in value due to the improvement would in many cases equal the cost. This plan, and a change in the present wasteful condemnation proceedings, would be a great relief to the city treasury.

Some relief to the debt limit situation will be obtained if the constitutional amendment passed at the last session is again passed, and is adopted next November. This amendment excludes from the 10 per cent. provision so much of the existing debt as is making a profit, provided the amount released is to be used in starting similar enterprises (subways and docks).

Important problems of finance and taxation will press for solution for several years.

SPECIAL FRANCHISE ASSESSMENTS AND TAXES.

The financial difficulties of the street railways threaten to create another problem of city finance. The question naturally arises: "What is the value of a franchise when a corporation is in the hands of a receiver?" If net earnings prove to be less than has been supposed, it may be that the present assessments will have to be reduced. Few persons realize that the special franchise assessments are added to the value of other real estate in computing the debt limit of 10 per cent. This increases the debt margin of the City of New York more than \$49,000,000, so that if these assessments were excluded the city would be some \$40,000,000 over its limit of debt (assuming there was an \$8,000,000 margin in December). A reduction of seventeen per cent. in the special franchise assessments would wipe out the debt margin.

Then there is always the possibility of the special franchise values being reduced as a result of reduction in rates by legislation or the Public Service Commission. Certainly if a public service corporation is compelled to reduce its charges (or increase its service) to a point that materially decreases its net earnings, the value to it of the privilege of using the highway will also be decreased. Though it would be an economic advantage to the community to have cheaper or better service rather than high special franchise valuations, the effect on finances will be disturbing.

The special franchise tax law has added other unforeseen complications to assessment work. Assessments made under this law by the state tax board are held by the courts to be at full value; they must therefore be "equalized" to the percentage of actual value at which other real estate in the tax district is assessed. This usually requires court proceedings that delay payment and reduce the amount of taxes finally received, below the sum at which the tax district has counted them as an asset. The city of New York is now carrying over \$20,000,000 of these taxes and the rest of the state perhaps \$2,000,000. Several attempts have been made to amend the law, so that the state board can make an equalized assessment, but so far nothing has been accomplished. The state board reported in February that assessments amounting to the large sum of over \$1,000,000,000 were in litigation.

Public service corporations should be taxed on the value of any privileges they enjoy, and the special franchise tax was perhaps the best method that could be adopted at the time. Since then a policy of regulation has been adopted and the accounts of these corporations must be kept publicly and uniformly. A method can be devised of assessment and taxation based on book accounts, which will do away with the necessity for the "discretion" of an assessing board and prevent the present vexatious and costly litigation.

This principle could be extended with advantage to those corporations which own their rights of way and which are now subject, in every tax district through which they pass, to an independent assessment made by local assessors who cannot possibly apportion the value of such property fairly. Some of the public service systems have hundreds of assessments to contest on the same grievance day when it is physically impossible to obtain correction of them all; consequently there is a continual temptation for the local representatives of the corporation to "look after the company" by engaging in local politics. The assessment of all highway crossings in cities by the State Board, enacted two years ago, has added to the troubles of both assessors and corporations.

DEFECTIVE ASSESSMENT METHODS.

While New York has about as good a system of taxation as any other state, it has almost the worst assessment methods. Outside of a few cities the assessment of real estate is very unequal. Few other states have the combination of evils that exists in our rural and suburban districts: overlapping of tax districts, lack of supervision over local assessors, local assessment of real estate of public service corporations, an absence of tax maps, and alphabetical assessment against the owner, instead of against the real property itself. At the Toronto Tax Conference the delegates from the western states scarcely credited the stories of our antiquated assessment machinery.

Extension of the supervisory powers of the State Board, tax maps, and a change in the form of the assessment roll, would make a great improvement in rural assessments.

New Jersey has extended separate assessment of land to all property except farms, with satisfactory results. The city charter of Yonkers was amended last year to require separate assessment similar to that in the City of New York. This plan has proved its value and should be extended now to all cities in the state.

The assessment for personal property in the City of New York has been much improved, but it remains a farce as a source of public revenue and a gross though unavoidable injustice to the individual. This injustice is due to the folly of trying to reach personalty by the general property tax, which is now admitted to be unjust in theory and unworkable in practice. No system can be devised to assess personal property fairly under the present plan, of trying to find out what each individual is worth. While we have secured important modifications like the mortgage recording tax and uniform bank tax, the outworn "personal property" tax law remains. If the question could be left to the City of New York, undoubtedly this tax would be abolished. It continues only because no attempt is made to enforce it in the country districts.

Accurate assessment is second in importance only to the system of taxation. Wasteful expenditures deprive the entire community of benefits that might otherwise be enjoyed; harmful taxes that are impartially enforced fall with equal weight upon all in the class affected; but unjust assessment takes from individuals more than their proper share, without arousing the general protests that follow extravagance or excessive tax rates.

To secure changes in the law that will make assessments, both of individuals and of corporate enterprises, certain and equitable, takes time and requires a better understanding of the principles of taxation and assessment than has yet been generally attained. The annual tax conferences that began at Columbus in 1907, we hope will continue to formulate principles for the guidance of public opinion, and we will try to secure for them a wider hearing.

LEGISLATION OF 1908.

There were 2,582 bills introduced and the 1,185 reprints made a grand total of 3,767 printed bills. Of these 262 related directly or indirectly to taxation or assessment, and 90 required extra attention. This is a work that no individual could do, but that every individual needs to have done. Including the special session, 524 laws were enacted. A summary of tax legislation was sent to our members in June, together with a revised supplement to our "Pocket Tax Law" in which the changes were summarized for convenient reference. Some important measures are briefly described here.

Exemption of Public Bonds. By an amendment to the Municipal Law all bonds issued by cities, towns, villages and counties of this State are exempt from all local taxation, and from State taxation, except the inheritance tax. Most New York State bonds are tax exempt by the terms of the issuing law. In this connection, the Columbus Tax Conference of 1907 (quoting the decision of the United States Supreme Court that a tax on public debts was a tax on the power to borrow money), resolved that "all public debts of all States, counties and municipalities should everywhere be exempted from taxation." New York has not gone so far, but has practically stopped taxing its own power to borrow, and that of its political subdivisions.

Real estate tax: collection. The City of New York has found it exceedingly difficult to collect arrears of real estate taxes, principally because only a lease of the property could be sold. A plan to collect taxes by selling the city's lien was perfected by the Mayor's Advisory Commission and passed (Ch. 490) as an amendment to the city charter.

As the law now stands, if real estate taxes and assessments are unpaid for three years, or water rents four years, the lien of the City of New York for all taxes and water rents due to date may be sold at auction to the bidder who will pay all arrears and bid the lowest rate of interest, which must not exceed 12%. When a tax lien is thus purchased, the principal is due in three years. If not then paid, or if the semi-annual interest payments are defaulted for 30 days, or if subsequent taxes, assessments or water rents are unpaid for 6 months, the "transfer of tax lien" may be foreclosed in the same way as a mortgage.

Improved property is usually mortgaged, and the mortgagee requires the taxes to be paid. Most of the arrears are accordingly on unimproved property, carried for speculation, on which no taxes are paid until a sale is effected. The city has thus, by waiting for its money, been aiding the very people who, by withholding large tracts from use, retard the proper development of the city, and increase its expenses for policing, lighting, etc., in these unpopulated districts. Prompt collection of taxes will put these speculators on the same basis as the owners of improved property and enable the city to carry out needed public improvements, for the general benefit of all land owners.

Tax Rebates abolished, City of New York. By a new law all taxes become due the first Monday in October as formerly, but no rebates are given for prompt payment; taxes unpaid by Nov. 1 bear seven per cent. interest from the date when due. This change has saved the city over half a million dollars formerly paid in rebates, that went mostly to great estates and corporations, as few of the smaller property owners took advantage of the rebates. A more important gain is the avoidance of errors.

State Tax on Corporations (amendment vetoed). Section 182 providing for an annual state tax on corporations, is needlessly complicated. It leaves too many questions to be determined by the Comptroller. In some cases it is impossible to tell, from the statute, how much a corporation ought to pay, and the amount of the tax will depend on the skill, or lack of it, with which the report is made out. We prepared an amendment simplifying the law, but the Comptroller's department preferred a bill of its own which passed, but was vetoed by the Governor on the ground that "while it

would be advisable to clarify the existing law, there are questions which would be raised under this bill that might cause serious embarrassment." We shall try now to have our amendment adopted.

Stock Transfer Tax. Several bills were introduced, ostensibly aimed at stock gambling, that would have affected adversely every business corporation in the State. One of these bills required every corporation (under penalty of fine and imprisonment), to report to the Comptroller monthly whether there had been any transfers of its stock, and if so, to give the names and addresses of the new holders, etc. Every individual selling stock—even if he owned it—was required to report the sale under penalty. Another bill increased the tax from two to five cents a share, a most dangerous move. Arguments against these bills were presented by your Secretary at Senate and Assembly committee hearings, and none of them were passed.

FOREST EXEMPTION.

A bill intended to encourage forestry was introduced by the Chairman of the Assembly Taxation Committee (as a substitute for a prior bill). We suggested amendments, but one phrase was retained to which there were serious objections. This provided that land brought under the act should not be assessed at a higher rate than barren land in the same tax district. This would have aided speculation in suburban lands, and after the bill passed we submitted a brief against it to the Governor, who vetoed it. The tax burden on forests tends to become heavier. Legislation that will encourage the production of timber without putting a premium on speculation or evasions is desirable, and we will endeavor to secure exemptions along these lines.

At the recent National Conservation Conference at Washington the speakers agreed that the general property tax hastened the destruction of forests, and the commission favored the separation of land and timber for tax purposes so that the land should be taxed annually on its value and growing timber be exempt.

The Toronto Tax Conference recommended tax legislation to encourage the growth of forests, and an entire session was devoted to a discussion of forest taxation. We had these addresses reprinted in advance of the volume of proceedings, for the information of the National Conservation Commission and legislators. Copies of the pamphlet were sent to our members.

GENERAL WORK.

At the invitation of the Premier of Ontario, the Second Conference on State and Local Taxation, under the auspices of the International (formerly National) Tax Association, was held in Toronto, Oct. 6-8, 1908. Twenty-four States, five Provinces, and eighteen universities and colleges were represented by delegates, appointed by Governors, Premiers, and university presidents. The speakers were members of State and local tax boards, educators and taxpayers. Your secretary was elected chairman of the program committee and secretary of the conference; and re-elected corresponding secretary of the International Tax Association.

Requests from tax commissions, officials, civic organizations and individuals in all sections of the country for information and advice increase and we have given all possible assistance. These demands show that the tax problem is everywhere becoming more acute. The eighteen years' work of this association has gathered material and experience of general value, and furnishes a nucleus for development along broader lines.

An important part of our work is the preparation and circulation of literature. More than fifty thousand pamphlets and leaflets have been sent, during the year, as they were required, to newspapers, legislators, officials, and others throughout the State. Among these pamphlets were reprints of various timely addresses at the Columbus and Toronto Tax Conferences. There is little other tax literature in print that is practical.

The receipts of the Association for the year ending November 30th, 1908, were \$5,311.60; and the expenses were \$5,985.27.

A. C. PLEYDELL, *Secretary.*

The Association is supported by membership dues (\$10) and contributions, which range from \$5 to \$100 or more. Enrollment as a member or a subscription involves no obligation to make further payments.