FEDERAL BUREAU GATHERS DATA ON CORPORATION TAX

Second Installment Covers the Middle Atlantic States and Reports Progress in Evolution of System.

Washington, June 8.—An able exposition of the system of state taxation of corporations in the middle Atlantic states is given in the report of the department of commerce and labor, in part 2 of the official digest, just off the press. In transmitting this report Herbert Knox Smith, commissioner of corporations, says in part:

Part 1 of this report covered New England. Part 2 deals with the middle Atlantic states and the District of Columbia. Additional parts may be prepared later. The need for such work is well indicated by a resolution passed by the International Tax association conference in 1909, as follows:

"Resolved, That this conference commends the recent compilation of the bureau of corporations of state laws relating to corporate taxation and urges the early publication of similar compilations of laws of other states and territories relating to the same subject."

Comparison of Systems.

The report is a digest of corporate tax laws, with administrative methods and financial results, studied on the spot, and its form compares the various systems practically. This part covers the most important field, probably, of corporate activity, and the states where most of our largest companies are chartered.

There is shown a marked tendency toward (a) separate sources of state and local taxation, (b) centralized administration, and (c) elimination of double taxation.

New Jersey derives 92 per cent of its total state tax revenue from corporations; Pennsylvania, 72 per cent; Delaware, 62 per cent; New York and Maryland, 32 per cent; and the District of Columbia, 16 per cent. Also, in the first four states the balance of the state revenues is chiefly from other special sources not subject to local taxation.

Local Taxes Assessed.

Certain states assess, apportion, or collect certain local taxes. New York and New Jersey assess certain special franchises or specified property for local taxation.

Maryland's constitution prohibits double taxation, and in the rest of this group there is a similar trend of legislation. Where the corporation is taxed by the state, its shares of stock are exempt in the hands of stockholders.

The taxation of individuals is practically the same in the New England group and in this group. Corporate taxation varies with each state.

Four states—New York, New Jersey, Pennsylvania, and Delaware—have substantial capital stock taxes. Pennsylvania's is the largest, about $9,900,000; New Jersey's is the most complete. New Jersey, by the attraction of its broad incorporation laws, derives 25 per cent of the total state taxes from this one source, assessed in 1909 to over 11,000 corporations, largely doing business elsewhere. New York's statute is decidedly complex; its rate is graded according to market prices of stock, dividends paid, and financial solvency.

Assess Franchises.

The capital stock tax is usually, in legal view, a tax on franchise, measured by assets, except in New Jersey and Delaware, where it is measured by par value of stock. But nowhere in this group is there anything corresponding practically to the "corporate excess" tax of Massachusetts.

Gross receipts tax on public service companies appears prominently throughout this group.

The inheritance tax is important only in New York (24 per cent of state taxes) and Pennsylvania (7 per cent).

Lump Sums in Delaware.

Delaware is unusual in having a number of tax laws practically inoperative, either because no corporations come within their scope or because of the fact that all railroads are allowed to commute by paying fixed lump sums.

New York and New Jersey are unusual in assessing, for local taxation, special franchises, i. e., the right to use of highways, etc.

The District of Columbia is conspicuous in having a minimum of specal corporation taxes and in securing its tax receipts almost wholly from a general property tax, which produces nearly 79 per cent of the district's tax revenue. Maryland is next, with 37 per cent from the general property tax.

Manufacturing is favored; such companies are exempt from state taxation in Pennsylvania, and also in New York, New Jersey, and Delaware if conducting their business principally within the state. In Maryland they are subject to the capital stock tax.

In this entire group, as in New England, railroads and financial corporations are among the heaviest taxpayers, though perhaps not to such a degree as in New England.

The subject covered is presented as of January 1, 1910.

Reports From Various States.

Of the total state tax receipts, New York derives about 32 per cent from corporations. For state purposes corporate taxation is by special taxes. Local taxation of corporations is by a general property tax on both realty and personalty. Thus the separation of state and local taxation is nearly complete.

The "capital stock tax" is quite complex and applies to a very large number of corporations. It is based on capital stock measured by assets employed in the state; and the rate varies according to dividends, solvency, and the market price of the stock. In legal theory, it is a tax on franchise, or on the privilege of doing business within the state, and not a tax on property. (The same was decided with respect to the "franchise tax" of New Jersey. On the other hand, while the Pennsylvania tax on capital stock is in most respects similar to that of New York, it was held a tax on property). Several important classes of financial, manufacturing, mining, and public service corporations are exempt from this tax.

Tax on Stock and Earnings.

Railroads are taxed on both capital stock and on gross earnings. Surface lines operated by motive power other than steam are taxed on gross earnings and on dividends in excess of 4 per cent.

Shares of stock are not taxed in the hands of holders. Debts may be deducted from the entire amount of personal property instead of from credits alone. "Special franchise" (for use of highways by public service companies) are valued by a state board, but are taxed locally for local use. These special franchises are declared by statute to be real estate (thus preventing the deduction of debts, bond issues, etc., from the amount of the assessment). This statute is also somewhat unusual in principle, as it adds to the valuation of the physical property the value of certain intangible franchise rights.

Taxing Foreign Corporations.

Foreign corporations are practically subject to the same taxes as domestic companies.

The total amount of taxes for state purposes from all sources for the year ended September, 1909, was approximately $29,000,000. Of this a little less than one-third was from corporations. The next largest single item of revenue was from liquor licenses, which in five months produced over $5,000,000. (This partial period was due to change in the system. For the last full year, 1908, the amount was $9,359,318.63.) The major portion of the remaining taxes is from inheritances (about $7,000,000) and stock transfers (about $5,000,000). The capital stock tax produced about $2,300,000.

New Jersey Rates High.

Of the New England and Middle Atlantic states, New Jersey derives the highest proportionate amount of taxes from corporations—92 per cent in 1909. The most important tax is the so called "franchise tax" on "miscellaneous corporations," based on the par value of the capital stock, and applying to corporations chartered in New Jersey except those engaged in manufacturing and mining and doing more than 50 per cent of their business within the state. Railroad, canal, and other public service companies also are exempt from this tax. Under this tax, in 1909, 11,022 corporations were assessed, and the total amount of tax collected, together with organization fees, was about $2,800,000. New Jersey has long followed a consistent policy of corporation laws providing for broad corporate powers, small initial costs, and a low annual tax, with the resulting large revenue from corporations above set forth.

No Franchise Tax.

There is a gross receipts tax on public service corporations (except railroads and canals) applied to local purposes and affecting corporations occupying public highways or places. The collection is local, but the state apportions amounts of the tax. The total amount received therefrom in 1909 was $824,000.

Railway and canal companies are exempt from the franchise tax and pay a tax on their real and personal property, most of which goes to the state, but the property is subdivided, and the tax on that realty which is not a part of the "main stem" goes to the localities.

Stock Is Exempt.

A general property tax applies locally to all companies. Shares of stock in corporations taxed by the state are exempt in the hands of the holders. Taxes collected from railroad corporations in 1909 amounted to about $3,700,000. The only other important item of state taxes was the inheritance tax of about $570,000.

About 72 per cent of the state tax receipts in 1909 was derived from corporations.

By far the most important corporate tax is the so called "capital stock tax," which is practically measured by net assets. Financial and manufacturing companies are exempt therefrom. In 1909 this tax, together with another capital stock tax on banks, produced about $10,900,000. There is also a state tax on gross receipts of transportation, transmission, and electric light companies in addition to the capital stock and corporate loan taxes, which produced in 1909 about $1,500,000.

Corporate Loan Tax.

One of the interesting provisions is the "corporate loan tax," whereby corporations are required to deduct the amount of the tax from the interest on bonds, etc. The United States supreme court has held that this does not apply to nonresident bondholders. The proceeds of this tax in 1909 were about $2,500,000.

Shares of corporations, subject to the capital stock tax, are exempt in the hands of stockholders. In general, foreign corporations are taxed in the same manner as domestic corporations. There is no state taxation on real property and practically none on personal property, except on money at interest. There is a general property tax assessed and collected for local purposes, but public service corporations are exempt from this tax as to the property used in the exercise of their franchises.

Pennsylvania Takes Full Share.

The revenue from corporate taxation in Pennsylvania exceeds in amount that collected by any other state of the two groups thus far treated, New York approaching it most nearly.

About 62 per cent of the state taxes comes from corporations. There is a sharp separation of the sources of state and local taxation—taxation of corporations for state purposes and the general property tax for local purposes.

Annual Franchise Tax.

Delaware has an "annual franchise tax," corresponding more or less to the "capital-stock tax" in other states, with two branches—(1) a tax on the par value of authorized capital stock of certain domestic (business) corporations organized after March 10, 1899, and doing less than 50 per cent of their business in Delaware, and (2) a tax on domestic gross receipts of transmission, insurance (other than life), light, heat, and power, and certain transportation companies, with the same qualifications as to date of organization and place of business. The second branch, aside from insurance, is almost entirely inoperative, because, with the exception of a few telephone companies, no corporations with such qualifications appear as having any gross receipts in Delaware.

Tax on Cost of Property.

Manufacturing, mining, and mercantile companies not subject to the annual franchise tax pay a graduated license tax on the cost value of the property used or bought by them.

In cases not subject to the annual franchise tax there is a gross receipts tax applied to express, light, heat, and power companies, and a tax on wire mileage applying to telegraph and telephone companies. Express and telephone companies also pay certain license taxes.

The constitution forbids the taxing of stock of domestic corporations in the hands of nonresidents, and stocks and bonds in the hands of residents are not taxed.

Old System in Vogue.

While there are a number of laws taxing railways upon their business, earnings, rolling stock, etc., these taxes have all been commuted to the payment of a fixed lump sum in each case, a policy which has existed for a number of years.

In 1909 there was received by the state from railroads about $107,000, the annual franchise tax brought in about $35,000, and the tax from transmission companies about $10,000. Organization fees of corporations amounted to about $75,000.

Taxation in Maryland.

The proportionate amount derived by the state from special taxation of corporations is small, about 32 per cent of the total state tax receipts. This, however, does not include a large sum received from corporations under the general property tax, an amount which can not be segregated. There is a so-called "capital-stock tax," which, however, is in essence a general property tax applied to corporations. It is collected through the corporations, based on their assets, and may be charged by the corporations to the stockholders, which in some cases is done. Railroads are exempt from this tax. Most of the proceeds of the tax goes to the public schools, so that both in principle and application it is hardly a state corporation tax.

Gross Receipts Taxed.

Railroads, transmission, and other public-service companies are taxed on their gross receipts. Shares of stock in corporations taxed either by the capital stock or the gross receipts tax are exempt in the hands of stockholders.

By far the most important single tax for state purposes is the gross receipts tax, which in the year ended September, 1909, produced about $642,000. The capital stock tax produced about $107,000. The only other large item is the tax on insurance companies and savings banks deposits of about $307,000.

General Property Tax Broadly Construed.

The proportionate amount derived from special taxation of corporations is about 16 per cent. This, however, does not include a large sum received from corporations under the general property tax, an amount which can not be segregated. In the district there is perhaps the broadest application of the general property tax so far observed. The majority of corporations come only under that tax.

There is a gross receipts tax on street railway companies and a gross earnings tax on gas, electric light, telephone, and certain financial companies. There is no special tax on railroads, telegraph companies, canal companies, express or car companies, or on business or manufacturing companies. Stocks and bonds are not taxable in the hands of the holders.

For the year ended June, 1909, there was received by the gross receipts tax about $178,000 from street railways and about $199,000 from gas, electric, and telephone companies. By the general property tax on the public service corporations there was received about $254,000. From special taxes on financial corporations there was received about $272,000.

To Fly From Berlin to Vienna.

Berlin, June 8.—Count Zeppelin's voyage to Vienna on board the Zeppelin V for a special visit to Emperor Francis Joseph is fixed to begin tomorrow night. He will return by way of Breslau, Chemnitz and Nuremburg, the total distance being about 1500 miles.

OREGON ELECTRIC RAILWAY

Special Train Service During Rose Festival.

In addition to its regular schedule service, the Oregon Electric railway will run special trains leaving Jefferson street station, Portland for Salem and intermediate points at 11:15 p. m. and for Hillsboro, Forest Grove and intermediate points at 11:30 p. m., June 6 to 11 inclusive.