

**INCOME TAX OFFERED SOLUTION OF PROBLEM**

(Continued from page 1.)  
the general fund and the diverting of an equivalent sum from the highway fund to market road projects.

In regard to the first four methods he called attention to the fact that he would not condemn them as methods of raising revenue for the time being; but he wanted some more permanent method worked out. The governor believed that the intangible tax did not meet the need for immediate increased revenues and would fall within the six per cent limitation.

After reviewing the various bills proposed for alleviating the tax situation he came to the heart of his message, "I believe an income tax law can be drafted which will be free from discriminatory aspects and free from those appeals to prejudice of class which have attended some other efforts to apply this form of tax."

The income tax, which Governor Patterson recommended, would be of a graduated nature and have a low rate. It would not be the intention that its revenue place the state on a strictly cash basis at once, but when that is accomplished it could be used as means for reducing the general property tax. Realizing that such a program must be submitted to the people the governor recommended that at the same time provisions be made to lift it out of the scope of the six per cent limitation.

The special message in full follows:

Gentlemen of the State Senate and House of Representatives:  
You are convened in joint session today pursuant to my request directed to the President of the Senate and the Speaker of the House of Representatives that you be so assembled. My wish that I be accorded the courtesy of a hearing by this body was promptly met by a desire to place before you, in accordance with utterance made in my inaugural message, observations which I have assembled concerning tax measures which have been presented for your consideration, and convictions at which I have arrived after a thorough and conscientious scrutiny of every aspect of such proposed legislation.

I am informed by the Ways and Means Committees that notwithstanding their careful consideration, and even relentless parsing, of appropriations proposed in the budget, expenditures for conducting the varied governmental activities of Oregon for the ensuing biennium will exceed the revenues at present anticipated from all sources by approximately three million dollars. This estimate, moreover, is reached by eliminating virtually all building enterprises, except those necessary to carry on the present normal school and a tuberculosis sanitarium in Eastern Oregon.

The condition thus outlined is one that you, as members of this legislature, have, no doubt, foreseen, and I believe it has given you the same deep concern that it has given me.  
It is known to the members of your body that this unsatisfactory condition has been brought about by a combination of circumstances, and policies, none of which was directly intended to produce such a dire result. We have witnessed the defeat by the people of measures devised to add to the revenues of the state at the same time that other measures increasing the expenditures of the state were approved by the people.

The people have also put certain limitations on the power of the legislature to increase and regulate taxes. An amendment to the constitution adopted not many years ago forbids the legislature to attach an emergency clause to any bill regulating taxation.  
Another amendment prohibits any tax levying authority from increasing the revenues raised by taxation in any one year by more than six per cent over the revenues raised by taxation in the preceding year.

The effect of the first named amendment is that no matter how pressing the emergency may be for a new regulation of taxes, the law designated to meet the emergency must await a lapse of 90 days before it becomes effective.  
It is not a criticism of our people to say that no element or group thereof rejoices over an increase in taxes applying to that particular group or element.  
Because of the present high level of taxes levied for state and local purposes, there is plausible argument to be found why any new or special tax should not be imposed upon a particular class of property or upon the right of any profitable activity to do business. It is still fresh in our recollections that new tax revenue bills were adopted by the preceding legislature, were nullified in their application by use of the referendum and were defeated by the people in the next ensuing general election.

As for the six per cent limitation, I call your attention to the fact that under this provision of the state constitution the six per cent limitation on increase in tax revenues may be exceeded when such excess is approved by vote of the people, and does not apply to taxes levied to pay bonded indebtedness or interest thereon.

The state, it is true, has two major sources of revenue. One is taxation, safeguarded and limited as I have outlined. The other is a group of miscellaneous revenues, including fees, licenses, excises, and the like. It has been assumed—and I believe correctly—that these measures regulating miscellaneous revenues are not restricted or limited by the two provisions of the constitution which I have cited.

operation the tendency is for revenue derived from that source to fall off for the first few years from the sums that were raised by applying the general property tax to intangibles, but thereafter to show a yearly increase under intelligent administration, until the proceeds greatly exceed the proceeds derived by the older method. The intangibles tax, therefore, does not meet the need for immediate increased revenues, whatever may be its other merits, and moreover would fall within the six per cent limitation.

The proposal that the market road tax be diverted to the general fund and market roads be built out of general highway funds is a circuitous method of avoiding the six per cent limitation. If such a plan were to have favor, I see no reason why it should not be approached directly. A flat division of highway funds for general fund purposes would produce the same results. But at best it would be a temporary way out of the present difficulty. If we provide by temporary expedient for the present deficit, there is the same problem to meet two years hence. This is apart from the restrictive effect the measure would have upon the general road program.

There is, in fact, another circuitous method of avoiding the six per cent limitation, by the exercise of which the burden of the deficit would fall upon general property. The six per cent limitation does not apply to tax revenues raised for the payment of principal of or interest on state bonds.

The principal and interest of the major part of the highway bonds outstanding are paid out of moneys derived from automobile licenses and gasoline tax. I believe there would be no legal obstacle to a requirement that the state fund transfer to the general fund \$1,500,000 a year, and for the State Tax commission at its next meeting to increase the general property tax by an equivalent sum to be used in retirement of state highway bond principal and payment of interest thereon.

I look upon this device as undesirable because of the increased tax obligation thereby imposed upon some classes of general property, and particularly upon agricultural lands which are now almost exempt from taxation. I suggest to you, however, that a drastic situation sometimes calls for drastic remedies. It may be a sound policy for a commonwealth to go into debt for permanent improvements, but it is unsound and disastrous for a state to run largely into debt for current running expenses. I believe you will all agree that the general property tax must not be increased except as a last resort. But the general property tax is now a major source of state revenue. If, through pride of opinion, or refusal to accept sacrifices, we divide into factions and through that division produce no form of relief, the necessity that government shall continue makes unavoidable the addition of greater loads upon the revenue sources that have once been established and which we have failed to assist in their plight.

As I am coming to this legislature in the hope that it will, in its able counsel and assistance, help me to avoid the application of a drastic remedy—one which could virtually all be applied by exercise of administrative power.  
I have sought diligently for some plan of taxation which will spread the needs of the present emergency equitably among all classes who have ability to pay. I am convinced that such a plan is the only plan that ought on merit to be considered. I have explained to you the obstacles in the way of adopting any fair system of increasing miscellaneous revenues; and I have explained to you my opposition to which I believe is yours, to the singling out of general property for increased taxation. Every avenue I have approached has finally, by devious courses, led back to one plan or scheme which meets the situation. I present it with reluctance, for the people of Oregon have several times expressed their views on this form of taxation and on only one occasion, and then by a majority of less than one thousand, approved it, only to reverse their will at the first opportunity offered.

I would remind you that in the election last November there was presented to the people an amendment to the constitution declaring it to be the policy of Oregon that no income tax should be adopted by this state for 15 years. That amendment was overwhelmingly defeated. I believe it was defeated because the people of Oregon feared that an emergency arises within 15 years which would involve the state in unpleasant consequences if this form of taxation were precluded from consideration.

I come to you with the conviction that the emergency which the people of this state foresaw might arise, has now arisen. I believe an income tax law can be drafted which will be free from discriminatory aspects, and free from those appeals to prejudice of class against class which have attended some other efforts to apply this form of tax. It is my conviction that an income tax properly drawn will produce revenues sufficient to meet the present emergency, and yet be so light in its application that capital or industry will not be reluctant to come to this state. It is my observation that the antipathy of new capital and industry to the income tax is not due to the payment of a moderate income tax, but to an apprehension of providing funds, it may be necessary to adopt one or more of them. My hope is that we can agree upon a more permanent and equitable method of alleviating the state's financial condition.

The intangibles tax is an indirect method of applying an income tax to that class of property. It has been successful as a revenue producer in states which do not impose an income tax, but in its

operation the tendency is for revenue derived from that source to fall off for the first few years from the sums that were raised by applying the general property tax to intangibles, but thereafter to show a yearly increase under intelligent administration, until the proceeds greatly exceed the proceeds derived by the older method. The intangibles tax, therefore, does not meet the need for immediate increased revenues, whatever may be its other merits, and moreover would fall within the six per cent limitation.

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**Helen Bolton Delighted With Reception on Tours**

Thinks Gentlemen Prefer Blondes, Touching Stray Lock Says, 'I'd Have to Say They Do in Self Defense, Wouldn't I?'

By FLORENCE CARTWRIGHT  
Helen Bolton, star of the Cradle Snatchers, which played last night at the Elsinore Theatre, sat in the lobby of her hotel, just after dinner, entirely surrounded but certainly not dominated by legislators. While senators expounded on bills and measures in thundering voices, Miss Bolton, in her well-placed contralto, talked of the receptivity of small city audiences.

"They're marvelous," she said. "We expect a certain amount of cooperation from our audiences in large cities. They are seasoned play goers and see dozens of productions every season. But on tour, we have never expected the grasping of fine points that the confirmed play goer's ear is attuned to. I think the movies have had a great deal to do with it. Certainly since moving pictures have become so popular, audiences are three times as appreciative. Don't you think that explains it?"

We agreed absently because our eyes were so busy watching her as she talked, that we had not heard as much as should. Small, with a beautifully poised head, blonde hair and particularly arresting hazel eyes, Miss Bolton fascinated us. She was irresistible. We finally decided that although her smile had a great deal to do with it, her "half-fellow-meet" personality was the thing that charmed us. With an effort we snatched our attention back to earth and began again.

Improvident increase in an income tax or any tax. It is that provision which required in effect that measures regulating taxation shall not go into force until 90 days have elapsed. There is here offered opportunity for invoking the referendum, if future legislatures shall unwisely promote extravagance. The people who vote today on matters of taxation are to be considered no wiser, and no more careful of their own interests, than the people who vote tomorrow. Without the restraints of the initiative and referendum, without the provision in the constitution which I have cited, the fear that an income tax would grow to oppressive proportions would perhaps have some foundation. In Oregon there need be no such fear.

The income tax I recommend would be graduated and have a low maximum rate—not more than three per cent. It would be framed with no intent or expectation that its revenues would be immediately sufficient to put the state on a cash basis, but it would provide sufficient revenues to meet the state's present obligations and when these obligations shall have been met the income tax will operate to reduce the burden of state tax on the property of the taxpayer.

As is known to you, the income tax would be within the six per cent limitation. I would like to see your course with other non-emergency measures and under ordinary circumstances await the possible application of the referendum. I assume that the referendum would be applied to it.

Inasmuch as the people will vote on the measure in any event, I recommend that a bill drawn along the lines I have broadly outlined be submitted at a special election, and that it contain a provision lifting its proceeds out of the scope of the six per cent limitation of the constitution in such measure as will place the state on a cash basis until such time as an agreed-upon level of tax revenues shall have been reached; that thereafter the proceeds of the income tax shall be used as a means of reducing the general property tax.

Inasmuch as the proceeds of an income tax would not be available until 1928, inasmuch as the need for immediate additional funds is pressing, I also recommend that for 1927 a five per cent tax on the fee and license revenues of state boards and commissions be imposed in order not only to provide new revenues at once but also to hasten the time when the income tax can be used as an equalizer of taxes, and that after 1927 the tax on fees and commissions be reduced to two and one-half per cent.

If the legislature shall be pleased to grant certain other measures which I recommend, I am confident that this system will pull the state out of its financial dilemma within a reasonable time and that this will be done without undue hardship to any class of the people or any class of property.

The plan assumes a careful supervision of state expenditures which will be attained by the creation of a state budget official with direct responsibility placed upon the Governor. Another measure providing for expert state supervision of local assessments should facilitate the reform of assessments until a much more equitable distribution of the tax load than at present prevails has been accomplished.  
I assure the legislature again that I have given my best thought to this problem and that I have invited and received the disinterested counsel of many persons of sound judgment. I repeat that the principal recommendation I have made has been decided upon with considerable reluctance in view of the oft expressed contrary opinion of the people. But I am confident that the people themselves will as readily sense the serious nature of the emergency which confronts us as you and I, and will be found as ready as you and I to sacrifice previously conceived opinion and surrender temporarily of their means that the good financial name of Oregon and the progress of our public institutions shall be preserved.

**Ducks Win Two Games From Nights and Training Five**

Two more easy victories have been won by the Salem Ducks in the last two days. They defeated the Night Juniors 75 to 4, and overwhelmed the state training quintet almost as thoroughly, 65 to 12. Flake of the Ducks scored 49 points in the two games, and Marr 32.

The Ducks will play the Mill City firemen Saturday evening at 8 o'clock in the YMCA gymnasium. This is expected to be a good game, as the fire fighters

**Engel Socks Thy; Loses Wrestling Bout on Foul**

PORTLAND, Feb. 2.—(AP)—Ted Thy, Portland light heavyweight wrestler, won from Helms Engel, Dubuque, Iowa, on a foul here tonight. Thy took the first fall from his opponent in 21 minutes, 30 seconds.

In a lively scrimmage in the second period Thy tossed Engel out of the ring on his head. This so enraged Engel that he jumped

back in the ring and planted a couple of lusty wallops on Thy's chin, knocking the Portlander to the floor. The referee then stepped in and gave the match to Thy on a foul.

The Marion Automobile Co. The Studebaker, the world's greatest automobile value. Operating cost small. Will last a lifetime, with care. Standard coach \$1610. (\*)

Capital City Cooperative Creamery, milk, cream, buttermilk. The Buttercup butter has no equal. Gold standard of perfection. 127 S. Com'l. Phone 299. (\*)



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Does it pay to own a car? The answer is decidedly "yes."  
Buying a car is an investment in health and recreation. Going to places you've never seen before stimulates the mind and brightens life's dull routine.  
If you already have a car, this is the time to dispose of it and to replace it with a better one.

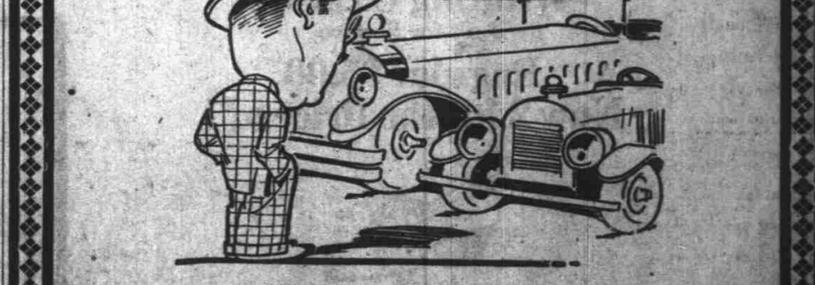
Use the Classified Ads to Buy or Sell Used Cars



**Lighten the Load on Moving Day**  
You will greatly simplify the problems of moving day by selling—through the classified ads—many of the things you intend eventually to replace.

Kitchen utensils, garden tools, some of your furniture, for instance, may be disposed of and replaced by new things which better suit your needs.

Many of the accumulations of years are obviously of no further use to you—sell them for cash and perhaps you'll realize enough to more than pay for your moving expenses.



**Two Cars Last Longer Than One**

If you own a fine car, get an extra car—a used car—for hard usage.  
During stormy weather or for any rough driving, your extra used car will preserve the fine one. It will be spic and span when the other is perhaps covered with mud after a hard trip.  
You can pick up a bargain in a used car by consulting the classified ads in this newspaper.  
Why take the Packard or the Cadillac on a fishing or hunting trip when you may get a light car for a nominal price?

**The Oregon Statesman**  
Telephone 23 or 583  
L. A. Sheerer Auto Wrecking Co., oldest in the Willamette valley. New and used parts and equipment. Low prices and quality service here, 1925 N. Com'l. 627