

Full Text of Address on the Income Tax Over Radio KGW, Wednesday Evening, April 13 by Hon. I. L. Patterson, Governor of Oregon

It has been my intention, since the close of the Thirty-fourth legislative assembly, to review, to some extent, the activities of the session with reference to revenue measures; however, the pressure of duties attendant upon establishing a new administration has prevented me from carrying out my plan until this late date.

At this time I am particularly anxious to speak of the two tax measures which are on the ballot to be voted on at the special election on June 28th—the income tax measure and the constitutional amendment providing for the change in the tax base upon which the State Tax commission determines its levy each succeeding year, in computing a six per cent increase where a six per cent increase is necessary.

In 1922 the State Tax commission was levying, directly against property, taxes which produced revenue in the sum of \$3,500,000.00. This was the general property tax, exclusive of millage taxes which had been voted directly by the people and have been regarded as not being within the six per cent limitation provision of the constitution. You will note that the constitution reads as follows: "Unless specifically authorized by a majority of the legal voters voting upon the question, neither the state nor any county, municipality, district or body to which the power to levy a tax shall have been delegated, shall, in any year, so exercise that power as to raise a greater amount of revenue for purposes other than the payment of bonded indebtedness or interest thereon, than the total amount levied by it in the year immediately preceding for purposes other than the payment of bonded indebtedness or interest thereon, plus six per centum thereof provided further that the amount of any increase in levy specifically authorized by the legal voters of the estate, or of a county, municipality, or other district, shall be excluded in determining the amount of taxes which may be levied in any subsequent year."

The legislative session of 1923, as you know, enacted an income tax measure, which was sustained by vote of the people. It was enacted for the purpose of reducing the direct tax against property. The revenue from the operation of this income tax resulted in a very much lower general property tax for the year 1924. In 1925, after the repeal of the income tax, the state tax commission failed to restore the former general property tax base, even though there was no tax against incomes to make up the deficiency. In fact, the general property tax for 1925, in the sum of \$1,900,000.00, did not represent, by some fifty thousand dollars, the constitutional increase of six per cent over the general property tax during 1924, when revenues were available from the operation of the income tax.

As a result of this reduction in the tax base, the state tax commission, in December, 1926, found itself able to levy for the expenses of the year 1927, only \$2,160,000.00, or \$1,400,000.00 less than was levied in 1922. In the face of the cost of actual operating expenses of around \$800,000.00 more than could be provided by the tax levying body, you will agree that we can not reasonably expect the activities of the state to function properly in the year 1927 on less, by \$1,400,000.00 than was required in the year 1922.

If you heard or read the special message to the legislature on the subjects of taxation and finance, which I delivered on February 2nd, you will remember that I reviewed the financial condition of the state and arrived at the conclusion that necessary state activities required, including this deficiency in actual operating expenses, about \$3,000,000.00 more than could, under the existing law, be provided for by levy made by the state tax commission. State revenues from sources other than direct taxes have been considered in arriving at the deficit with which the state was confronted on January first of this year.

Having in mind that the state required \$3,000,000.00 more than could be raised without vote of the people I suggested to the legislature the income tax and the titling bill, hoping that the income tax would produce about \$2,000,000.00 and the titling bill something less than \$1,000,000.00. The income tax was passed. The titling bill was defeated by the legislature. Appropriations were made aggregating approximately \$4,000,000.00 in excess of available state revenue, of which appropriations I vetoed bill providing for \$1,300,000.00, leaving a deficit of over \$2,000,000.00 for the current biennium.

Section 44 of the income tax measure provides that the revenues derived from the income tax law up to and including \$2,000,000.00 may be used to meet the larger portion of this deficiency in state revenues. While the section mentioned provides that the state tax commission may levy, for the year 1928, \$2,000,000.00 in excess of the amount levied for the year 1927, it will not be so levied unless the income tax measure is passed by vote of the people, and if it is so passed,

I apprehend that the income tax revenues will approximate the \$2,000,000.00 additional tax levy necessary to avoid a deficit for the biennium.

In order that we may not again face such a deficiency in this state and have to call upon the people to authorize an increased levy, such as will be authorized if the income tax measure is endorsed, a constitutional amendment raising the tax base to \$3,500,000.00 after 1928 has been prepared for your approval at the special election on June 28th. This amendment will serve to restore the tax base to approximately what it was before it was cut down in 1923, when the previous income tax measure was in effect. I wish to assure you that while I am a member of the state tax commission, it will be my endeavor not to levy for more than is absolutely necessary to meet the actual requirements of the state, and I promise you that if a levy of less than \$3,500,000.00 will suffice for the actual needs of the state, the tax levy for such years will be reduced.

By the way, this proposed constitutional amendment will clear up the question of which state tax levies actually come within the six per cent limitation of the constitution and which do not. A reading of the constitutional amendment will disclose to you that the millage taxes voted by the people are not within the six per cent limitations and those levies made directly by the state tax commission will be within the six per cent limitation. You will also note from reading the income tax bill, as well as the constitutional amendment, that the income tax, after the first year of its operation will come within the six per cent limitation and will be used to reduce the general property tax.

As to the income tax—in the past the income tax measures which have been placed on the ballot in Oregon have met opposition because they aroused an element of antagonism of one class of property owner against another. Their opponents saw in them a desire to place the burden of taxation on one class of property owner only. I do not favor imposing upon the incomes of Oregon a tax greater than is actually required for a proper reduction of general property taxes. I do not wish to be a party to the introduction of a tax measure which will impose an unfair burden upon any business or upon any individual, and would oppose any income tax which would not produce a lower general property tax. The income tax must be regarded as a measure for removing the present state deficit and for equalizing the present tax burden; not as a means for raising more money to spend. It must not be considered a measure to permit extravagance in the administration of the state's business or the unwarranted advance of governmental expenditures.

The income tax, as proposed by the measure which you will find on the ballot will not impose an unjust burden upon any person within the state. It has for its purpose the taxing of incomes derived from Oregon business, and also the incomes from intangible property, held by Oregon residents. The rates are low and the exemptions are low, so that while they may reach men and women of small income, they do not place an unreasonable burden on either those of small incomes or those who enjoy larger incomes. Much is being said by those who oppose any income tax about the unfair burden that will fall on the man or woman of small income. This has no foundation in fact, as an examination of the measure will show. Under the proposed law, exemptions are provided in the sum of \$1,000.00 for unmarried persons and \$2,000.00 for married persons or heads of families. An exemption of \$400.00 is allowed for each dependent.

The rate of tax on net incomes are one per centum on the first thousands dollars; two per centum on the second, third, fourth and fifth thousands, and three per centum on incomes in excess of five thousand dollars.

For example, a single man or woman, who has an income of \$1,000 per year will pay no tax. On an income of \$1,500.00 per year, the tax would be one per centum of \$500, or \$5.00. On an income of \$2,000 per year, the tax would be one per centum of \$1,000 or \$10.00. On an income of \$3,000.00 per year, the tax would be figured as follows: Net income, after deducting exemptions, \$2,000.00; tax on the first \$1000.00 at one per centum, \$10.00; tax on the second \$1000.00 at two per centum, \$20.00—total tax \$30. For a single person earning one hundred dollars a month the maximum amount of tax to be paid would be \$2.00. With deductions other than the exemption, the amount paid would usually be less.

Married persons or heads of families have an exemption of \$2,000.00; thus on an income of \$2,000.00 no tax will be paid. Married persons with one child will pay no tax on an income of \$2,400.00; with two children no tax will be paid on an income of \$2,800.00; and with

three children no tax will be paid on an income of \$3,200.00. A married couple with two children and an income of \$3,000.00 per year—perhaps better than the average family earning power throughout the state, would pay an income tax of only two dollars per year; this being one per centum of \$200.00 or the difference between their income of three thousand dollars and their exemptions of \$2,800.00. With other deductions and exemptions, this amount would, in practically all cases be less, and in no case higher.

Exemptions provided by the law, other than for dependents are fair and equitable. Deductions may be made from the gross income, in order to ascertain the taxable net income, as follows:

- Expenses for doing business, including a fair compensation for personal services.
- Interest on indebtedness.
- Taxes accrued or paid within the income year except inheritance taxes or income taxes under this enactment.
- Losses sustained in trade or business.
- Loss by fire or other casualty not compensated for by insurance.
- Bad debts.
- Reasonable depreciation and obsolescence.
- Contributions to religious, charitable, scientific or educational organizations, up to 15 per cent of the net income.
- Dividends from stock in corporations.

Exemptions permitted under the proposed law include:

- Proceeds of life insurance policies.
- Value of property acquired by gift or bequest.
- Interest on Liberty bonds or other national or federal obligations.
- Salaries and wages of federal employees.
- Income from the operation of the workmen's compensation act.
- Income from health or accident insurance policies.

A very simple blank will be provided, and no person need fear legal charges for filling income tax returns.

On large incomes the rate of tax is not so heavy as to be burdensome because the tax is against net payers of large amounts, as well as those of lower incomes, have a reflection in lower taxes on general property.

I have always held to the theory that a very large majority of the people in the state will pass intelligently upon any governmental matter, when all the facts are fairly understood by the public. I believe, also, that a very large majority of the people are not only willing, but anxious to bear their just share of the burdens of government. There is no one who does not receive direct benefit from governmental functions and governmental activities I believe there are few, if any who will not be proud to know that they are actually bearing a share of the cost of the government under whose protection they live and whose benefits they enjoy.

I earnestly urge your careful examination of these two measures for stabilizing the finances of Oregon which will be submitted for your approval on June 28th, because I believe that if adequate and accurate information concerning their character and purpose is in the hands of the people who are to pass on them, they will be sustained.

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"Hiram," exploded a farmer's wife from the rural district, when her husband stopped on a busy corner in the city to do some rubber-necking, "The way you stare at them city hussies is something scandalous. Why, a body would think you'd never seen any legs before."

"Wall—Marie"—drawled Hiram, "That's just what I was beginning to think myself."

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