

MAINE STATE LEGISLATURE

The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)

Sixty-Fifth Legislature.

HOUSE.

No. 187.

STATE OF MAINE.

*To Hon. Joseph W. Porter, House of Representatives,
Augusta, Maine.*

I wish to enlist your attention to the consideration of a proposition of limiting the percentage of taxation on money and moneyed securities, so as not to exceed a certain amount, in case that anything like the bill recommended by the tax commissioners is to become a law. This can be done by an amendment of the bill. The plan is not a new one, but has been adopted in some of the states, though the commissioners give no information about it, evidently not being a plan in consonance with their view. My idea is to make the maximum assessment not exceeding one per cent—or somewhere from one-half to one per cent.

Money at interest is not, in every sense, regarded as property; and many political writers maintain that it is not, in a

natural sense, taxable property. But our policy and practice are otherwise.

Money at interest cannot now-a-days endure a taxation exceeding one per cent. It was, of course, otherwise when money would let for from eight to twelve per cent, or perhaps even at six per cent and upwards. But money cannot now be securely loaned at over four per cent, and, on first-class securities cannot be let for that. In this city the percentage of taxation is rarely less than two and a half per cent, and once, within a few years, it ran up as high as three cents and three mills. Is it just that money reaping only four per cent or less interest should pay from two to three per cent of it in taxes?

The commissioners argue that, under the law recommended by them, the assessment would not exceed one per cent. Just make that result, as to this species of property, *a certainty*. But we all know that would not be the result in any of our cities or large towns. The day has gone by when taxation in the larger places will be less than two per cent at least. The promise of the commissioners can be made good only by the amendment proposed of limiting the amount of assessment by law.

I have said that money cannot be loaned safely at over four or four and a fraction per cent. This remark may not apply to a multitude of small transactions, or to current business matters generally, or to bank discounts; but it certainly does apply to all such investments as will be reached by the proposed law, such as securities held by trustees and executors of estates, by widows and minors, and by men retired from or out of business. There is nothing that can more strongly verify the rate which such investments pay than the fact that our Savings Banks have great difficulty in declaring four per cent dividends, although they are strengthened in every case by having some amount of unexpired bonds paying unusual profit, because purchased before money became so cheap a commodity as it now is.

The low price of money is what makes the price of stocks so high, good stocks having in some instances doubled in value. When money was worth eight to ten per cent, Boston and Albany and Boston and Maine Railroad stock sold at par, and even less than par. While now, with money at from three to four per cent, the same stocks sell at double a par value and beyond it.

The present legislature authorizes the city of Lewiston to issue some four per cents. They will undoubtedly sell at a rate considerably above par. The legislature also authorizes Aroostook county to issue a four or five per cent bond, which will be put on the market at from five to ten per cent above par. Could any person afford to purchase these bonds and pay half or more than half the income for taxes?

I have before me the February circular of one of the most reliable banking houses in Boston, giving the present prices of a great variety of bonds; and prices are at this time lower on account of the late financial crisis than they have been for some years before. The bonds of Boston can be purchased at a price yielding the purchaser a very slight fraction over three per cent. Bonds of most the cities and many towns in Massachusetts are offered at rates paying about 3 3-8 per cent. No bond of any place in Massachusetts is advertised at a rate paying as much as four per cent interest. On the list the bonds of the following places and corporations are offered at prices paying the following rates of interest.

City of Lewiston, Maine, 3 3-4; Kansas City 4; Minneapolis, 4; City of Detroit, 3 3-4; Cincinnati, 4 1-4; St. Paul a trifle less than 4; Old Colony R. R. Company, 3 3-4; Boston & Lowell R. R. Company, 3 13-16; Portland & Ogdensburg R. R. Company, 4.

No Boston & Maine Railroad bond is purchasable at a rate that will pay even four per cent. The bonds of both Bangor and Portland, and probably of most the cities in Maine, have for some years, sold in the markets in this State and in Boston, at rates paying less than four per cent. The last quotation

of Portland (last June) in my possession, was at a price paying $3\frac{1}{2}$ per cent.

There is quite a class of investors, having no active business for the use of capital, who can find no other employment for their means than to put it into interest-bearing securities. They may not be competent to otherwise manage what they possess, or their position of trust towards others is such that the law permits no other kind of investment. They are the executors and trustees under wills, agents for women and minors and relatives, the men of the professions and old or infirm persons who have passed out from the cares and risks of active business; many, if not most, of them being wholly dependent on the interest of their money for a livelihood. How could any of these persons depend on any of the before enumerated securities, receiving four per cent or less, and paying over half of their income for taxes? What justice is there in the State demanding it?

The tax not only seems intrinsically unendurable, unless the limiting amendment be adopted, but it is harsh when considered relatively with other taxable property. The discrimination seems to be against moneyed investments. Will the merchant be required to take an account of his stock, and the lumberman an inventory of all his lumber, or will general estimates be made of each according to apparent condition and circumstances? Was such a thing ever done as that?

Money is to be taxed in full. But how is it with all other property? Do we not know that, as a rule with very few exceptions, the property within the State is undervalued for purposes of taxation? This applies to all property. The taxation of real estate in the State is, as a whole, upon an assessment falling far below real value. This is not only true in Maine, but true everywhere, and true of all species of property. What trader in the whole State of Maine is really taxed for the full value of his average stock of goods? What lumberman on any of our rivers was ever assessed for the full value of all logs and lumber in his possession? Usually in such cases, a proximate estimate, equitable towards

the taxpayer, is intended to be made. And no one complains of the manner or result of it that I know of.

An argument has been current that it is better to relieve assessors from the necessity of exercising any discretion in the assessment of securities. But is such a result effected, even by the proposed bill? Are assessors to assess a four per cent bond as highly as a six or seven per cent, or a doubtful bond as much as an undoubted one, or must they not exercise judgment and discretion on the subject? And is it not true that the same thing follows as to all kinds of property? Not a parcel of real estate nor an article of personal property can be assessed without the assessors exercising a discretion in estimating values. And it cannot be overlooked that assessors have always been influenced by equitable considerations in assessing property somewhat in proportion to the profits and income it produces. Unimproved real estate is taxed less than it would be if rent were collectible from it.

There will be another inequality, amounting to injustice, flowing from the proposed bill. It is extremely unsatisfactory to require a few persons to pay heavy assessments on a class of property when all persons similarly situated do not pay proportionally as much. The few will bear a heavy burden,—the many will contrive to escape the burden.

It is not in human nature to expect that men will stand the compulsion of paying more than half the earnings of their property for taxes on such property, as long as such a result is avoidable. Some men will remove from the State. Money will be invested in real estate within and without the State, and in non-taxable stocks and securities that will add nothing to the bulk of taxable property. Trusts may be transferred into other more liberal jurisdictions. But, above all, there will be a tremendous temptation for suppression and concealment in the listed returns. Men will often go great length in suppressing the truth, or in making constructions favorable to their own interests, to avoid what they deem oppressive taxation. They find ways for reconciliation of the conscience.

Dean Swift more than a century ago described revenue laws that were offensive to those affected by them as “cobwebs that will catch small flies but allow wasps and hornets to break through.” Another tendency such a strict law will have, and that is, to induce persons to attempt to obtain higher than the safe current rate of interest on money by embarking in the numerous unreliable and speculative investments which are now, on account of the cheapness of money, flooding the market, to the injury of credulous people.

There would be a different result under a system such as the amendment proposes. The amount reaped for taxes would probably be greater in the aggregate, and taxpayers would be contented to pay their taxes. Almost any one would pay what would seem to him a reasonable amount of taxation, rather than resort to attempts at avoidance. In the state of Connecticut the tax is one per cent for five years, I think, and the year the law was set in operation in the city of Hartford, the valuation on money and securities jumped from the sum of three to thirty millions. In Pennsylvania, I think, the tax is one-third of one per cent annually, and the law works admirably there. So would it work well here under any fair and reasonable system. Men would not conceal their money by investment abroad, and there would be more money to be let at home. It would be better for both lenders and borrowers at home. Severe taxation locks up money, while reasonable taxation brings it out.

A question may arise whether this project would be legally sustainable, in view of the constitutional provision that taxes on real and personal estate are to be assessed equally according to the value of the property. It would seem that, if property can be doubly taxed for failure to expose it to the assessors, a reduction might, on the same principle, be made for exposing it to them. That clause in the constitution has been frequently very liberally construed by the courts, and necessarily so. Otherwise there could be *no* exemption from taxation. Railroads could not be taxed in the mode they are now taxed, nor would savings bank deposits stand, as they

do, on favored ground, and other instances could be adduced.

In Connecticut, bonds and notes produced for taxation are to be registered, and without registration they are not legally transferable or collectible in that state, and the tax is paid for the registration. Unregistered bonds are there to be fully assessed, if discovered. So here, the tax could be assessed for a registration or license.

I am not advocating the law proposed by the commissioners, even though shorn of some of its severity by some such an amendment as is here proposed. I think the present law well enough. Assessors know pretty well where to apply the pressure, and have great power to do so. But if the listing system is to come, let it be made as free of harshness as it reasonably can be.

The bill of the commissioners seems to discriminate in favor of the "hornets and wasps," in that it authorizes a double taxation of all one's property, real and personal, for a neglect to hand in a list. This would bear heavily upon many tax payers, but would not so severely affect one whose possessions are all or principally securities. Double taxation of the supposed amount of securities alone would seem to be both assessment and punishment enough.

Excuse the length of this communication written under the privilege of a constituent, by your friend.

P.

BANGOR, March 2, 1891. •

STATE OF MAINE.

HOUSE OF REPRESENTATIVES, }
March 3, 1891. }

Tabled, pending reference to Joint Select Committee by Mr. PORTER
of Bangor, and ordered printed.

W. S. COTTON, *Clerk.*