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Tax Reform in Kentucky

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The subject of taxation seems to be so distasteful to the average citizen that very few are willing to tax their patience sufficiently to make an investigation for the purpose of ascertaining whether our system is a wise or unwise one. Taxpayers generally complain that their taxes are excessive and that something is wrong somewhere, but whether it is in the system or in the administration, or elsewhere, they don't know and seem content to inveigh against conditions in general, rather than to make an intelligent investigation.

It is indeed remarkable how little attention is given to taxation by the taxpayer and more remarkable still that any effort to change and improve the condition is regarded with suspicion as being in the interest of the wealthy, or of some one who has an axe to grind or tax to avoid, notwithstanding that glaring defaults in both the system and its administration may be pointed out, when, as a matter of fact, any intelligent change of our present system would necessarily be in the interest of the small taxpayer whose holdings are almost entirely tangible and cannot be concealed from the assessor as the intangible property of the citizen of large holdings.

Our system is what is known as the General Property Tax or Advalorem System. That is, all property of every description is sought to be assessed and taxed alike, at its fair cash value, estimated at the price it would bring at a fair voluntary sale. This sounds so fair that it appeals to every intelligent person as being eminently just. What could be fairer than for every citizen to list with the assessor all of his property of every description and have it assessed at its full cash value, and all property contribute equally to the support of the government? But the difficulty lies in the fact that we have a large class of intangible property, which, as the
assessor can not see, the assessment of which depends upon the disposition of the owner to list it for taxation.

If all property were tangible and subjected to the inspection and valuation of the assessor, as it was when the American Commonwealth first adopted the general property tax, consisting almost entirely of lands, cattle and merchandise, then our present system could be equitably administered and would not be subject to the universal criticism and condemnation it now receives. But when a large part of our wealth today consists of securities, bonds, stocks, money or only a small portion of which is ever found on the assessment rolls, then the necessity for a more elastic system becomes apparent. Conditions existing today under present system are these: Our assessors are elected for a term of four years in each county and are subject to local influences and governed largely by the natural desire and ambition to protect their respective counties as far as possible from bearing more than their proportion of the State tax, consequently lands and other tangible property are assessed, not at their fair cash value, but at from 30 to 70 per cent of their value, consequently the holders of intangible property, such as money, notes, bonds, etc., cognizant of this low valuation of lands and other tangible property and knowing that if their money, bonds, etc., are given in for assessment at all, it must necessarily be at their full value, they refrain from listing this property at all, for fear they will bear an undue proportion of the public burden, the result being that the taxes are paid by the tangible property almost entirely, the holders being consoled by the reflection that their property is assessed low.

An apt illustration of how little tax is paid on this class of intangible property is pointed out in the preliminary report of the present State Tax Commission, to wit:

Revenue received from dog tax, 1912.............. $127,651.00
Revenue received from bonds, 1912.................$32,425.00
Revenue received from money, 1912.............. 89,100.00
Revenue received from Ky. stocks, 1912 6,000.00

$127,525.00

Excess of State revenue collected from dog tax over the revenue received from the tax on all the bonds, money and stocks in Kentucky corporations in the State........ $126.00

At the time this article is written it is not known whether the
proposed amendment to the Constitution will be carried or not. If it is adopted, then the hands of the Legislature will be untied and they will be at liberty to adopt from time to time such changes in our system as experience has demonstrated to be desirable, by way of separation or classification of property. By separation is meant giving to the State certain classes of property from which it derives its revenue, and turning over to the counties and other local taxing districts, another class of property from which the taxes for the support of the local government is derived, and no class of property is taxes but once. For instance, the State to derive its revenue exclusively from the assessment of public utilities and other public corporations, licenses, etc., and the counties and local districts to derive their revenue from the assessment of the lands and the personal property of the individual. Classifications undertakes, as the word indicates, to divide property for the purposes of assessment into classes and to fix a different rate for different classes, as experience has or may demonstrate to be the most effective in securing revenue and placing on the assessment roll property which now escapes taxation entirely, so that each class will bear a proportion of the burden.

Under the terms of our Constitution, we are restricted to the general property tax, and until its terms are changed, and the legislative straight jacket is removed, we will have to content ourselves largely with existing conditions and endure, or to find some way to improve the administration of our present system, so as to have the burden of taxation more equitably distributed, for as it is now administered, the general property tax is practically a tax on real estate.

It is a well known fact that at present the volume of personal property equals, if it does not exceed the amount of real property, yet the proportion of personal property actually assessed for taxation, especially the intangible, is insignificant, and the worst feature is that the tax which is actually collected upon this class of intangible property falls upon the taxpayers in inverse proportion to their ability to pay, for the reason that it is largely paid by widows and orphans whose estates, (usually small ones), are disclosed by the public records and who can not, if they would, evade the tax.

In this connection it may be stated that while it is not practical to accomplish much in the way of tax reform under the present Constitutional restrictions, that the first step towards improving the administration of the law is the creation of a Tax Department of the
State, under the supervision and control of a State Tax Commission, consisting of three members, to take the place of all assessment boards such as the State Board of Valuation and Assessments, the Railroad Commission, in so far as it assesses the property of railroad, and the Board of Equalization, so as to give the Commission a free hand in the assessment and equalization of all property for State taxes, as well as supervision and control of the county assessors. It can not be gainsaid that this would be a vast improvement over present conditions with a tendency to systematize and regulate the assessment of all property but as stated above, our system is so inherently defective that no marked improvement will ever be accomplished until the Constitution is amended, giving the Legislature a free hand on the subject of taxation.

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