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THE TAXATION OF MORTGAGES AND CREDITS IN
ILLINOIS AND OTHER STATES SINCE 1870

BY

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A. B. The Ohio Wesleyan University, 1908

THESIS

Submitted in Partial Fulfillment of the Requirements for the

Degree of

MASTER OF ARTS

IN ECONOMICS

IN

THE GRADUATE SCHOOL

OF THE

UNIVERSITY OF ILLINOIS

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1909

I HEREBY RECOMMEND THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

Robert Murray Haig. A.B. The Ohio Wesleyan University.

ENTITLED The Taxation of Mortgages and Credits in Illinois
since 1870.

BE ACCEPTED AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE
DEGREE OF Master of Arts in Economics.

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on
Final Examination



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INTRODUCTION.

Among the taxation problems which have presented themselves for solution in the United States since 1870, the problem of the taxation of intangible personal property has been perhaps the most perplexing, and the taxation of that portion of intangible personal property included in the term "mortgages and credits" has presented peculiar problems which have been especially difficult for the various states to solve. The purpose of this study is, first, to examine some of the particulars in which the problem of the taxation of mortgages and credits is peculiarly difficult; next, to examine the measures which have been adopted in Illinois and in certain other states to meet these problems; and, last of all, to consider, in the light of the experience of the various states, what course of action it is wise for Illinois to adopt in order to best serve the interests of the state.

Definitions.

It may be well, at the very beginning, to ascertain what is included under the terms "mortgages and credits" when they are used in this connection.

The development of the modern industrial system has been marked by a great increase in the amount of business transacted on the credit basis. Credit is found to be playing a larger and increasingly important part in business transactions. With the growing sta-

bility of political and social conditions, men have come to have more faith in the future and they insist less strongly upon a full payment for the articles they have to sell at the time the article changes hands. The merchant is willing to deliver the goods to a customer to be paid for at some future date. The land-owner is willing to deed a piece of land to a purchaser upon payment of but a small fraction of the purchase price, arranging to have the balance paid at stated intervals in the future. The seller when calculating his assets includes among them these sums which he has arranged to have paid to him at a latter date. The buyer stands committed to satisfy these claims as they fall due and upon his ability and willingness to do so, rests the success of the system. The claim which the seller of the goods has upon the buyer is, for the purposes of taxation, called a credit.

This particular conception is found expressed in the act passed by the Illinois legislature in 1872 which defines a credit as "every claim or demand for money, labor, interest or other valuable thing, due or to become due, not including money on deposit."

Judge Evans, of Ohio, approaching the subject from a slightly different standpoint, defines a credit as "an estimate of the ability of a debtor to pay, based upon his known ownership of real and

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1. Fiske: Modern Bank. p. 18. Kinley: Money. p. 201.
2. Kinley, (Money. p. 199.) defines credit from the debtor's standpoint as "an attribute or power of the borrower". "By credit we mean the power which one person has to induce another to put economic goods at his disposal for a time, on promise of future payment".
3. Laws of Illinois: 1870-1872. p. 69. Money on deposit was to be listed as "Moneys of other than Bank, Banker, etc." Ibid: p. 8.

personal property, his habits of life, his practice as to meeting his obligations, his state of health, and his reputation for honesty and promptness in the community in which he resides."¹

This "estimate of the ability of the debtor to pay" is, in a great many cases, based on some very substantial sort of security such as a deed to the property made out in favor of the lender, so worded that he shall have a lien in the event of the debtor failing to meet the obligations which he has assumed. Such an instrument may be issued on the basis of either land or chattels and is known as a mortgage.

The Problem Not a New One.

It is interesting to note in passing that the problem of taxing credits is not a new one. Over two hundred years ago in England the problem was more or less clearly defined. John Locke, in his pamphlet entitled "Considerations of the Lowering of Interest and Raising the Value of Money" speaks of the situation and discusses the phase of double taxation introduced by the attempt to tax both the land and the mortgage.²

In the United States, however, and especially in the western states, the problem is one which has come up for serious consideration only in recent years. Visible tangible property has, until recently, been found able to bear the burden of taxation for the whole community. The increased public expenditures of the rapidly developing states have, however, laid a burden on this single class of property

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1. Evans: Taxation in Ohio. p. 72.

2. Locke: Works. Ed. 1826. Vol. V. p. 75.

which is hard to bear. Relief is demanded and the state legislatures, in trying to furnish this relief, have attempted, by many and varied methods, to list credits for taxation.

Importance of the Problem.

The problem of the taxation of mortgages and credits is important, in the first place, in view for the present urgent need for revenue. A policy which promises increased income is desirable. Any solution which threatens to cut off the income which now comes from the taxation of such property will be viewed with disfavor by the owners of tangible property who, in all probability, would be taxed to make up the deficit. Again any plan which includes a provision to lay a heavier tax on credits or to secure the enforcement of the present law may have consequences of serious import to the community such as raising the interest rate or making loanable capital difficult to obtain.

If the study of the problem leads one to believe that there are peculiarities connected with credits which render them essentially different from other taxable objects, it will be necessary to recommend that the method be abandoned which treats all property as if homogeneous. Thus the problem is important also because its solution may involve a change in the time honored general property tax in so far as it is applied to the assessment of this particular kind of personal property.

CHAPTER I.

PROBLEMS INVOLVED IN THE TAXATION OF MORTGAGES AND CREDITS.

In order to obtain a background for a discussion of the attempts to solve the problems of the taxation of mortgages and credits, some of the problems involved will be briefly presented at this time and an attempt will be made to show why the taxation of this class of property is peculiarly difficult.

Should Credits be Taxed as Property?

Perhaps the greatest problem of all is to justify the existence of the tax. Why should there be a tax on mortgages and credits? Under the general property tax, the system in use in Illinois and in most of the other states, the question is answered by a line of argument somewhat as follows. The state must have revenue to accomplish the ends for which it exists; each man should contribute according to his ability; the property a man owns is a fair test of his ability to contribute; mortgages and credits are property; therefore they should be taxed. But the question is, are mortgages and credits property? That the legislatures have answered this (in the) question in the affirmative is shown by the fact that the general property tax is in existence. They seem to reason that credits are a source of revenue and an index of a man's ability to pay. This statement is not easy to deny but it should be remembered that these credits are in themselves of no value. The vital point is that they represent property which is productive of revenue. This fact is lost

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1. Seligman: Essays on Taxation. p. 34.
2. Coray: Utah Mortgage Tax. First National Conference. p. 184.
3. Pierce: Taxation of Moneys. Ibid. p. 343.

sight of by the law makers. Let the credits be taken as evidence of an interest in the revenue producing property, find the source of the revenue, determine the owners, divide the tax between them and no injustice will be done. Suppose, for example, that two men, A and B, have five thousand dollars apiece in cash. A wishes to build a house but decides that he wants a ten thousand dollar property and, moreover, he feels justified, in view of his probable future income, in borrowing five thousand dollars. B lends A the money and accepts a mortgage on the house as security. Has any new property been created? Many authorities say no. Before the transaction A and B had ten thousand dollars in cash between them. After the transaction they have a ten thousand dollar house between them. A has the title to a house of which he owns but one half and B has a mortgage showing that he has a lien on the house for his money to the amount of one half of the value of the property. The assessor, however, when he sees a ten thousand dollar house to which A holds the title assesses him as owning ten thousand dollars worth of property. In addition to this, when B is called upon to declare his personal property, he is supposed to enter his five thousand dollar mortgage. Thus the state, for taxation purposes, seeks to schedule a ten thousand dollar property at fifteen thousand dollars, ten thousand dollars for the property and five thousand dollars for the piece of paper showing that one half of the property is owned by another man. Those who advocate such a tax therefore really maintain that a ten thousand dollar property held in partnership under these conditions is a fifteen thousand dollar property. It is believed, then, by some thinkers, that

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1. Seligman: Essays on Taxation. p. 34.

Fisher: Nature of Capital and Income. p. 97.

Swan: Impersonal Taxation. Annals Amer. Acad. Sept. 07, p. 53.

2. Debt deduction to limited extent in Illinois. Laws: 71-72. p. 9.

to say that credits are property in the sense that other taxable objects are property shows a failure to look behind the form. What a state should tax, if it wishes to tax property, is not the evidence of indebtedness but the goods loaned; not the mortgage showing that someone has loaned money but the money itself which has been loaned.

Problems of Administration.

The main object of this tax is to secure revenue. No regulative purpose is present. The state, however, in its attempt to obtain revenue should adopt a plan which is not expensive, which is easy to administer, and which is just between individuals. The problems which the taxation of mortgages and credits present to the state in its attempt to secure an easy, cheap, and just administration, must now be considered.

Tax Easily Evaded.

In the first place, a law laying a tax on mortgages and credits is easily evaded. If the man who loaned the five thousand dollars to A is inclined to evade the tax, he will have little difficulty in doing so. This evasion persists in spite of the most strenuous efforts on the part of the states to prevent it and is so general that there is much truth in the statement of one writer that the taxation of such property "is much like taking a subscription to a Sunday School¹ or Church" in that only those pay the tax who wish to do so.

Many different methods are used to escape the tax on this sort of property. One of the most fruitful sources of evasion is found in the fact that each state in the union has its own independent tax

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system with no attempt at correlation of laws or cooperation in enforcing them. If an assessor finds that a man holds a mortgage on property in the state and attempts to compel the listing of the credit, all that it is necessary for the lender to do in order to escape the tax is to exchange the mortgage for one across the state line which the assessor is powerless to cross in his effort to enforce the state law. Another way is to make out the loan in the name of a friend in another state and to take from him the perpetual power of attorney in regard to the mortgage. Citizens of one state have been

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1. H.C. Adams: Science of Finance. p. 442.

T.S. Adams; Taxation in Maryland. Johns Hopkins Studies. 18:73.

An interesting example of this sort of evasion was brought to light before the board of review of Champaign County during the summer of 1908 when a special effort was being made to list the mortgages owned in the county. Two wealthy men, brothers, one living in Champaign County, Illinois and the other living across the line in Indiana, were heavy investors in mortgages, \$ 500,000.00 worth of such credits being recorded in the name of the Champaign County man on the county records. When he was called upon to give reason why he should not be taxed on these mortgages he claimed that he owned none of them: that he had bought them for his brother in Indiana and had assigned them over to him. His brother, then, really owned the mortgages in question. It is only reasonable to suppose that the Indiana brother performed a similar service for the man in Illinois.

2. Coray: Utah Mortgage Taxation. First National Conference on Taxation. p. 187.

known to form corporations in other states for the sole purpose of assigning their mortgages to them.¹

In the absence of any understanding between the states as to how credit instruments shall be taxed, this practice of sending mortgages out of the state has become very common. The effect of an attempt at enforcement is that an obstacle is placed in the way of both lender and borrower. The former, assuming the absence of friction which would prevent the working out of the incidence, is forced to send his money out of the state for investment, the tax virtually amounting to a prohibition against investing it in his own community. The latter, when he wishes to borrow, must seek a lender in another state. Thus the enforcement of a law laying a tax on credits involves the evil of forcing capital out of the state.

An arrangement between the states by which credits sent to another state could be reached for taxation would not wholly solve the problem for there is an international phase to the question. In Champaign County, Illinois, many mortgages are recorded which are owned by the Sun Insurance Company of Toronto, Canada, and it is evident that the evils of evasion which now exist between the states could easily grow up between Canada and the United States as a whole, thus necessitating some sort of an international plan of taxation if the credits are to be reached. It is possible, in other words, that, if a perfect scheme for listing credits between the states was produced, Illinois capital might be driven out of the country and would go to supply the demands of Canadian borrowers as some Canadian capital now finds borrowers in Illinois.

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Another form of evasion is found in states where credits owned by building and loan associations are non-taxable. There mortgages are often executed to such companies and immediately assigned to other parties without recourse. Since it is necessary to record only the original action in order to make the document legally binding, it is possible by thus reassigning mortgages, to put the real owners beyond the danger of discovery.¹

In many states the tax-payer is permitted to deduct his debts from his credits. Where this is the case fictitious debts are often used as an offset against any credits which a man may be known to own. A father will sometimes make out a note to a son or some other dependent for a sufficient sum to counter-balance any credits he may have and swear that he is indebted to the amount of his credits.² The note is, of course, expected to escape discovery and after it has served its purpose as a balm to the conscience of the tax-payer it is destroyed. Thus the matter of debt deduction becomes a serious problem.³

Sometimes exemption is secured by using a different legal form from the ordinary one as, for instance, when instead of drawing up and recording a mortgage, the mortgagor gives the lender a quit-claim deed in escrow to be delivered upon the payment of the debt.⁴

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1. Chapman: State Tax Commissions in the United States. Johns Hopkins studies. 15:467-8.

Evans: Taxation in Ohio. p. 70.

2. Evans: Taxation in Ohio. p. 70.

That this ruse has been used in Illinois seems to be evidenced to by a reference in an opinion of Attorney General Hamlin in 1903, in which he says, "The fact that, in the case referred to by you, the notes may have been given to the holder by his father, does not affect the question of their liability to assessment for the purposes of taxation." Report: 1903-4. p. 440.

3. Seligman: Essays on Taxation. p. 33.

4. Coray: Utah Mortgage Taxation: 1st Nat'l Conference. p. 184 et al.

A means of evasion of this type very common in Illinois, is to substitute a trust deed for a mortgage. The county records, in this case, show the names of the mortgagor and trustee instead of the names of the mortgagor and mortgagee thus making the name of the real owner a little less accessible. The beneficiary may be found, however, by looking up the deed itself but the probability of this being done is not great.

It is also the custom of firms investing in such securities to make them out in the name of some employee who immediately reassigns them in blank, in which shape they are sold to investors. Many of the mortgages recorded in Champaign County stand in the names of stenographers and clerks employed by banking firms.

These, then, are some of the means which are resorted to in the attempts to evade the tax. So effective are these attempts at evasion that in some states the assessors have come to the conclusion that it is impossible to secure anything like a fair assessment of such property and therefore make no real effort to do so.

Tax Easily Shifted.

Not only is the tax easily evaded but it is also easily shifted. If, perchance, the mortgagee in our supposition does not seek to evade the tax but includes the mortgage for five thousand dollars in his statement of personal property required by the assessor, he, himself, may not even then pay the tax. He may be able to raise the interest rate which he charges the borrower sufficiently to cover the amount of the tax.

This question of shifting and incidence should receive some consideration from the stand-point of the man who ultimately

pays the tax. Let the condition of the debtor be examined in the case we have been considering.

The amount of property which A really owns is five thousand dollars. He pays taxes on five thousand dollars additional because of the fact that he holds the title to the ten thousand dollar house and is not allowed to deduct the debt of five thousand dollars which he owes on it. Now when the lender is taxed on his mortgage and shifts the tax to the borrower, A, who has accumulated and owns but five thousand dollars and has enterprise enough to invest it in building a house for which he goes partly in debt, must pay taxes on fifteen thousand dollars. Of course B may evade the assessment or be unable to shift the tax entirely. This is therefore an extreme case and may not often work out to the full extent but in so far as it does work out it appears to be inequitable and unjust to the debtor.¹

The unfavorable effect of this tax upon economic progress in general may, perhaps, be made more clear if we change the example used and suppose A to be an investor in farm land rather than in residence property. He buys a ten thousand dollar farm giving a mortgage for one half the purchase price. He holds the title to the land in which he has five thousand dollars invested. B holds a mortgage as security for the five thousand dollar loan. How will this land compare with the ten thousand dollar farm which lies next to it but which is owned outright by one man? We have seen that in the absence of friction the entire tax will fall on the debtor. It therefore comes about that, under a system which in theory taxes all property equally, A's farm pays taxes on five thousand dollars more than the

farm of the same value lying next to it. Land, then, which is taken up by men who can pay but part of the cost in cash is burdened by the tax on credits so to put it at a disadvantage in comparison with farms of like value unencumbered by a mortgage. The tax has a tendency to work as a penalty or fine upon the man who takes up land on these conditions. In so far, consequently, as it is desirable not to discourage individuals in their efforts toward the improvement of their economic condition, this tax is to be condemned.¹

Some investigation has been made of the degree to which this shifting of the tax to the debtor is carried. Professor Carl C. Plehn, after an elaborate study of interest rates in San Francisco, has concluded that the mortgagor not only pays all the taxes in the shape of increased interest but he pays even more than the tax which extra amount goes, as Mr. Plehn thinks, to pay for what he terms the cost of shifting.² A study in New York of adjacent counties lying in New York and in neighboring states, of which some taxed mortgages and some did not, has produced evidence sufficient to convince Professor Seligman that the incidence of this tax falls on the borrower.³ Just how successful the lender is in his attempt to shift the tax is not a closed question. His success will vary with the amount of economic friction present and this friction varies in amount with almost every particular instance. Assuming free competition, then, the borrower will pay the tax but it is also true that there is probably much more friction present under ordinary conditions than is allowed

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1. Schemckebeir: Taxation in Georgia. Johns Hopkins Studies. 18:233.
2. Plehn: Taxation of Mortgages in California: Yale Review: Vol. 8.
Mathews: Double Taxation of Mortgaged Real Estate. Q. J. E. IV: p. 339.
3. Seligman: 4 reports on Local and State Taxation: Pol. Sc. Quart: 22:300.
Pierce: Taxation of Moneys and Credits. First National Conference.
p. 345.

for in those investigations which seek to show that the lender pays the entire tax.

Moral Effect of the Administration of the Tax.

The effect of the tax upon the morals of the people should not be disregarded. Much has been written of the evils of self assess-¹ment from this stand-point of public morals. All of these evils are² present in their most acute form in mortgage taxation. It is generally agreed that the temptation to perjury varies directly with the ease of evasion and the danger of being found out. It has been seen that evasion is easy in this case. It is evident, then, that great care should be used by the state lest the law should put a premium on perjury and should work to the detriment of the public morals.

Summary.

The problem of the taxation of mortgages and credits as it presents itself for solution is, then, first to decide whether or not credits are property or are merely representatives of property. If it is decided that they are property and should be taxed, the problems of administration arise: how can evasion be prevented? how can the owner of the credits be prevented from shifting the tax? and how can the law be prevented from having an undesirable moral effect?

The next step is to examine the measures taken by Illinois and other states to meet these problems and the degree of success which has attended their efforts at solution.

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1. Adams: Science of Finance. p. 447.

2. Pierce: Taxation of Moneys and Credits. First National Conference. p. 352.

CHAPTER II.

LEGISLATION IN ILLINOIS SINCE 1870.

The constitution adopted by the state of Illinois in 1870 provided that every person should pay a tax in proportion to the value of his property. In the general revenue act passed two years later this term "property" was construed to include for the purposes of taxation "all moneys, credits, bonds and stocks and other investments, the shares of stock of incorporated companies and associations and all other personal property." Thus it is seen that, in Illinois, credits are considered as other property for the purposes of taxation.

In a message to the legislature on March 25, 1872, five days before the passage of this revenue act, the governor urged that the bill be passed. He inclosed a letter from Auditor C.E. Lippincott which stated that "the first necessity for an immediate and radical change and revision" in the revenue law grew out of "the undeniable and admitted fact" that the great mass of intangible personal property escaped taxation. Taxable property thus escaping amounted, he believed, to one hundred and fifty millions of dollars a year.

The law which was passed was clearly an earnest attempt to secure the listing of all such property. It is explicit in specifying the objects to be taxed and is fairly generous in supplying means to enforce its provisions.

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1. Hurd: Revised Statutes: Ed. 1906. p. 68.
2. Laws of Illinois: 1871-2. p. 1-2-3.
3. Reports to the General Assembly: 1871. v. 3. p. 101.

Law of 1872.

The law of 1872 provides that every credit, whether for a specified sum of money, for property, or for labor, shall be listed for¹ taxation and assessed at a fair cash value. In a separate section it is specified that where a deed for real estate is held for the payment of a sum of money, such sum, so secured, shall be listed and assessed as other property. This is obviously intended to aid in the enforcement of the mortgage tax law.

One of the rules for listing credits allows the deduction² of debts. The amount of bona-fide debts founded upon actual consideration received and not acknowledged simply for the purpose of being deducted was permitted to be used in counterbalancing credits in making up the statement for the assessor. Debts, however, cannot be deducted from other property than credits nor is the act applicable to banking companies. It is further specified that no deduction shall be allowed from the amount of any bonds, stocks, or money loaned, or on account of any obligations to to insurance companies on premiums or policies, unpaid subscriptions to religious, charitable, and other societies or unpaid installments on the capital stock of any company.

Bank credits are listed for assessment in a different form under the head of "the amount of the credits of bank, banker, broker, and stock jobber." Just what was to be included under this head was prescribed in the law as follows: the first amount to be determined was "the amount of bills recievable, discounted or purchased, and other credits due or to become due, including accounts recievable, and interest due and unpaid": from this sum was to be subtracted "the

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1. Laws of Illinois: 1871-2. p. 2.

2. Ibid. p. 9.

amount of all deposits made with them by other parties" and "the amount of all accounts payable other than current deposit accounts."¹

Summarizing then, it may be said that all credits owned by the residents of the state which are not off-set by indebtedness are supposed to be listed for taxation with the principal exception that credits for money loaned are not liable to deduction for debts.

The machinery for securing the listing of these credits as provided in the act was as follows. The assessor was to call upon each resident of the state between the first of May and the first of July, list his name for taxation, and require him to make a correct statement of his taxable property.² If the property owner was sick or absent the assessor was supposed to leave a notice requiring a statement to be made out and delivered. Each resident of the state "of full age and sound mind"³ was commanded to make such a statement. Personal property was to be listed at the place of residence of the owner. In case the owner moved from one place to another within the state, he was to be taxed where he was first called upon by the assessor. In the case of a person moving into the state, he was deemed subject to taxation in Illinois unless he could produce conclusive evidence that he had already paid taxes on the property for the current year in another state.⁴

The statement of property was to be signed and delivered to the assessor who was then to fix a fair cash value for each credit. If the assessor suspected that the schedule was not a full and fair statement of the property owned by the person, he was empowered to

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1. Laws: 1871-2. p. 10.

2. Ibid: p. 3 and 21.

3. Ibid: p. 3.

4. Ibid: p. 6.

administer an oath and to demand that the person swear to the truth of the statement. False swearing was to be considered perjury and punishable as such. If the person refused to make a statement he was then compelled to submit to be taxed on the basis of a statement made out by the assessor who was to list the property of the person according to his best judgement and information.

In addition to this, if the person making out the statement wished to counter-balance his credits with debts, each debt deducted had to be verified by oath. A violation of this oath involved a penalty of a fine of from one hundred to one thousand dollars beside the regular damages which might be recovered by "the state, county, or other local corporation" in regular action in court. It was arranged that a statement of all deductions with their affidavits, should be filed with the county clerk and be kept for two years open to the inspection of those whose duty it was to enforce the law.

Still another means was furnished for securing a full listing of the property. The assessor was empowered to call witnesses and to examine any person under oath whom he believed to have a knowledge of unlisted personal property held by another.³

It is important to note one other provision of the law as showing the ever-present desire to prevent evasion. An article is included which required that any property omitted from the assessment for any reason or any property on which the full taxes were not paid because of defective description or assessment, should, when discovered, "be listed and assessed with ten per cent interest thereon from the

1. Laws: 1871-2. p. 8.

2. Ibid: p. 9.

3. Ibid: p. 21.

time the same ought to have been paid."¹

The act of 1872, then, defined the policy of Illinois as follows: first, credits were to be considered as property and were to be taxed at the same rate and in practically the same manner as tangible property: next, the principle of self assessment was adopted and evasion was sought to be prevented by requiring the returns to be verified by oath in suspected cases: and, lastly, there was evidently no consideration of the questions of the justice of the incidence of the tax and of the effect of the method of assessment upon the morals of the people of the state.

Amendment of 1879.

In 1879 the legislature amended that part of the law of 1872 which pertained to the listing of personal property so as to require that the list made out by the property owner should be sworn to at the time of the assessment. In assessing notes, accounts, bonds and moneys, the assessor was to be governed "by the same rules of uniformity that he adopts as to value in assessing other personal property." If any person refused to make out a list under oath the assessor was empowered to schedule the property according to his best knowledge and information and to add fifty per cent to the assessment as a penalty. Refusal to make a list was, in addition, to be considered a misdemeanor and punishable with a fine of not exceeding two hundred dollars.

Act of 1898.

With the exception of this change in 1879, the law stood intact until 1898, when amendments were made looking toward a more

1. Laws: 1871-2. p. 64-5.

2. Laws: 1879. p. 252.

thorough assessment.No change was made in the specifications of the objects liable to assessment,the whole purpose of the act seeming to be the prevention of evasion.

Twenty five years of experience does not seem to have convinced the legislature that a system dependent upon oaths for its enforcement was inherently faulty.To them it seemed that the trouble lay in the fact that the assessment was not sufficiently sworn to and they proceeded to seek a remedy by requiring more oaths.

Under the law of 1872 the assessor was permitted to demand that the assessment schedule be verified by oath if he believed it to be an unfair list of the man's property.¹ The amendment of 1879 provided that "persons required to list personal property" should make out a list²"under oath".³ But the new law of 1898 was more specific. "The assessor",it reads,"shall require every person to make,sign,and swear to the schedule." If a person turns in a false or fraudulent schedule with the intention of defeating or evading the law,he is liable to a fine of five thousand dollars,imprisonment for a year or both.⁴ It was made the duty of the state's attorney in each county to enforce this law and as an incentive he was allowed twenty dollars for each conviction,to be taxed as costs,and ten per cent of all fines collected.

Another section of the law empowered the board of review to summon assessors and others before them and to inquire of them under oath as to the correctness of the valuations or as to the methods used in obtaining them.Any person who refused to appear and submit to such an examination was declared to be guilty of a misdemeanor and liable to a fine of five hundred dollars.

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1.Laws:1872.p.8.

3.Laws:1898:p.43.

2.Laws:1879.p.252.

4.Ibid.p.51.

It was provided further that the assessor should take oath before he assumed the responsibilities of his office binding him to appraise and assess all property according to the provisions of the law, to require every person to sign his assessment schedule and to administer the oath to each tax payer.¹ If an assessor broke this pledge and omitted property from the schedule or consented to set it down for more or less than its true value, he was liable to a fine of from one hundred to five thousand dollars or imprisonment for a year for each offense. He was also held to be liable on his bond for any damages sustained by any party whom he might have injured by an unjust assessment.

In addition to these provisions the assessor was required to swear to the truth of the assessment when he turned the schedule over to the county clerk.²

The law of 1898 also changed the form of the assessment. Instead of using the full value of the property as the basis for taxation, it was provided that one fifth of the true value should be used.³ Printed blanks were to be furnished by the auditor which were to be filled out by the property owners. Credits were to be listed in one column at their true "full value" and in another column at one fifth of this sum which amount was to be known as their "assessed value." The person was urged, in a note printed on the blank, to make a full return of his property as "only one fifth of the several amounts" listed would be "taken and assessed for the purposes of taxation."⁴

Another section made the period of assessment one month

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1. Laws: 1897-8. Extra Session. p. 39.
2. Ibid. p. 44.
3. Ibid. p. 97-98.
4. Ibid. p. 98.

earlier than it had formerly been, so that it extended through April and May rather than through May and June.¹

This same act made it the duty of the county officials to publish the list of assessments. A newspaper was to be used for this purpose in all counties of less than one hundred and twenty five thousand people, but in those counties which had a larger population a pamphlet was to be issued containing the assessments and a copy sent to each tax-payer. The law of 1898 specified that the list should be published as soon as the officers should "have completed the assessment."² An amendment passed in 1905, provided that the list should be published as soon as the personal property assessment should be completed without waiting for the completion of the assessment of the real property.³ A law passed two years later, however, made the clause read as it had read in the law of 1898.⁴

Under a law passed in 1901 state banks were put on the same footing as national banks in that they were not required to list their personal property in the form prescribed by the law of 1872.⁵ This form was also changed when, in 1903, funds in the hands of other banks subject to draft and check and other cash items were classed as credits rather than as moneys as they had been classed by the act of 1872.⁶

Summary.

The law for the taxation of mortgages and credits in Illinois stands today practically as passed in 1872. The general policy

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1. Laws: 1897-8. Extra Session: p. 40.
2. Ibid: p. 45-6.
3. Laws: 1905: p. 361.
4. Laws: 1907: p. 449.
5. Laws: 1901: p. 266.
6. Laws: 1903: p. 294.

has been changed in no particular. The amendments which have been adopted have not been of the nature of fundamental changes. They have simply been efforts to make the old law more effective.

Illinois, then, through legislation passed thirty seven years ago, committed herself to the following policy. Credits are treated as other property. No essential difference is recognized for the purposes of taxation. No special attention is given in the statutes to the fact that this sort of property presents peculiar difficulties. Each person is supposed to list his credits for taxation and to swear to the truth of the list. He is asked to assess himself and to give his oath as to the correctness of the statement which it is to his pecuniary advantage to make incorrect. The officers appointed to enforce the law must first give their oath that they will do their duty and again give their oath that they have done their duty. The tax-payer, the other party to the contract, must give his oath that he has obeyed the law. Surely, if a full and just assessment could be obtained by a policy which depends upon oaths to secure its enforcement, Illinois should have a full and just assessment.

How far the system adopted has been successful or, in other words, how full and just the assessment has been will be examined presently. The effectiveness of laws as passed by the legislature, however, is often impaired by the decrees of the courts when cases under the laws come up to them for decision. The next step would seem to be to review the court decisions in order to ascertain if, in interpreting the laws, the courts have in any way weakened them or have withheld the support that is necessary to secure their proper enforcement.

CHAPTER III.

ATTITUDE OF THE COURTS OF ILLINOIS TOWARD THE LAW LAYING A TAX ON
MORTGAGES AND CREDITS.Are Credits Property?

In discussing the attitude which the courts have taken toward the law laying a tax on mortgages and credits, the first point to be considered is the position they have assumed toward the theoretical question of whether or not credits are property, or, in other words, of whether or not the tax on credits is justifiable under the theory of the general property tax.

Early Decisions.

As early as 1850 it was decided that the power to assess and collect a tax on all personal property included the power to tax money loaned.¹

Three years later, in 1853, the court declared that to tax both the land and the notes for the payment of the land in case of a sale was not double taxation.² In this case a man named Rhodes sold a piece of land to a man named Walker for fourteen hundred dollars and gave him bond for the deed. Walker paid two hundred dollars of the purchase money, gave notes for the payment of the remainder, went into possession of the land and listed it for taxation in his own name. Rhodes was assessed one thousand dollars on his notes. The court declared the assessment valid on the grounds that credits were "as much the subject matter of taxation as the same amount of money loaned on bond or mortgage or invested in stocks and other securities." "The principle is", reads the decision, "that all property"

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1. Trustees v. McConnell: 12 Ill. Sup. 138.

2. People v. Rhodes. Dec. 1853. 15 Ill. 305.

'shall contribute to the support of the government. A man's wealth may consist of credits exclusively. He is as much protected in the enjoyment of that kind of property as one whose property is entirely in land or chattels. As he participates in the public benefits, he is bound to share in the public burdens..... The tax is levied on the land irrespective of the indebtedness of the owner. So a tax is levied on the credits with-out reference to the transaction out of which the indebtedness arose." A credit in the form of a note, then, was declared to be assessable property.

In 1859 the supreme court handed down a decision against a man named Worthington who had prayed to be relieved of a tax on a mortgage and some notes which he held to secure the payment for the piece of land which he had sold.¹ His contention was that to tax both the land and the notes was unjust especially since it was necessary for him to assume the responsibility for the payment of the taxes on the land in order that his lien might remain valid. The court acknowledged that the tax in this case might be unjust and that it might work hardship to the lender. It was even admitted that it was double taxation from one standpoint. "It may be true, in one sense," the court declared, "to say that it is double taxation to tax a horse which is sold and also the note which is given for the purchase money: and so it is to tax the note which is given for \$ 100 borrowed money and also the money which is borrowed.... To say that there shall not be double taxation in this sense of the term is at once to say that no credits of any sort shall be taxed." The evils which would flow from such exemption, the court thought, would be greater than those which existed under the present conditions, for persons

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1. People v. Worthington. 21 Ill. Sup. 171.

whose fortunes consisted of moneys loaned at interest would escape the burdens of taxation entirely and their fair share would have to be paid by the owners of tangible property. It was held that the plaintiff had not shown that the notes were not property under the definition contained in the revenue law and therefore the assessment was sustained.

Case of Griffin v. The Board of Review.

With these decisions as precedents the court was called upon to decide the case of Griffin versus the Board of Review. The facts involved in the case were as follows. A contract had been drawn up in 1895 between two men, Griffin and Reihl by name, by the terms of which Griffin agreed to give Reihl a title to a piece of land for a consideration of thirty seven thousand, four hundred dollars, four thousand of which was to be paid down in cash and the balance to be paid in fifteen years. Griffin retained the title to the land but insisted that Reihl assume the responsibility for paying the taxes. No promissory note was given to cover the amount of the debt. In April, 1899, the part of the debt which was still due, amounting to about thirty two thousand dollars, was assessed to Griffin as a credit. Griffin protested the tax and the case came up to the supreme court for decision in february 1900.

The question to be decided was, then, as to whether or not this claim which Griffin had upon Reihl for the unpaid balance on a debt for land which had not yet been delivered to the buyer, which claim was not evidenced to by any tangible instrument, such as a note, was to be considered as property for the purposes of taxation.

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Five members of the supreme court had no difficulty in finding that this claim was property as property was defined under the revenue act, basing their decision on the cases on the point which had been decided before. ¹ "The legal effect of the transaction between the parties here," says the court, "was to create new or additional property, viz., a legally enforceable demand in favor of the appellant to recover from said Reihl the unpaid balance of the purchase money of the lands."

Two members of the court felt that they could not hold this view. They were willing to admit that a piece of paper showing that money had been loaned was taxable property under the constitution and the law of the state but they could not convince themselves that an agreement to buy a piece of land sometime in the future was a credit and taxable as such. This seemed to them to be a tax on contracts. "The question then is presented," the judge writing the dissenting opinion said, "whether the owner of the property who has made a mere executory agreement to convey it for and upon the payment of a stipulated price at the time fixed upon, no promissory note or obligation other than such agreement having been given, can be assessed both upon the property and upon the price or amount agreed to be paid for it. I am of the opinion that in such cases the property to be assessed is the land or other property agreed to be sold and transferred and not the agreement for such future sale or transfer. To tax both is to levy and assess double taxes on what is in reality the same thing... There is a vital distinction between a sale and a mere executory agreement for a sale.... If two parties, by sale, have

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1. People v. Rhodes. 15. Ill. 305. and People v. Worthington. 106 Ill. 28.

'out of one kind of property created two kinds, both are taxable: but if they have only agreed to do so, such agreement is not taxable as a credit or as property, in the sense those terms are used in our revenue laws. To hold otherwise is to hold that the framers of such laws intended to tax contracts as such, and according to the value of the property involved, or the amount of damages which might be recovered for a breach of them, in addition to the property itself..... I do not deny the validity of the act for the taxation of credits, but I insist that the statutes so providing and defining the terms 'credits' as 'every claim or demand for money, labor, interest or other valuable thing due or to become due, not including money on deposit' should receive a reasonable construction so as to avoid double taxation..... As a credit is defined to be a demand for any 'valuable thing' why, under the opinion of the court, would not Reihl's right by the contract to have Griffin convey the land to him upon the payment of the contract price be a demand for a valuable thing - for land - and taxable as a credit in his hands?..... By such a construction three kinds of property would be created. First, the real and only property - the land: and the other two, fictitious credits - one a demand for money and the other a demand for land."

This opinion of the dissenting judges shows very well the difficulties involved in an attempt to define credits as Illinois has done. Under this definition it was first held that the evidence of money loaned was a credit and therefore taxable.¹ The next step was to declare that notes held as security for land whose title had

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1. Trustees v. McConnell. 12. Ill. 138.

not yet been transferred to the purchaser were credits under the definition. Finally, by following out the line of reasoning adopted in the beginning, it was decided that a mere agreement to buy land, not evidenced to by a note, was property in this sense of the word.

It is readily seen, then, that the courts have given the legislature full and hearty support in their policy of declaring credits property and therefore logically taxable under the theory of the general property tax.

Decisions on the Law for the Administration of the Tax.

An examination of the decisions of the courts interpreting the laws provided for the administration of the tax reveals the fact that, although some points as to this side of the question have been passed upon, the courts have, as a rule, done nothing to impair the effectiveness of the law.

An exception to this, however, is found in the case of the law for assessing credits omitted from the assessment in former years. The law of 1872 had provided that if any property should escape taxation and should subsequently be discovered, it should be listed and taxed with ten per cent interest from the time when it ought to have been listed. In 1885 the supreme court decided that this law did not grant sufficient power to enable an assessor to revise the amount of credits listed by one of his predecessors. It was held that there was a distinction to be drawn between the assessment of credits and the assessment of other personal property in that the legal position of the assessor was not the same in dealing with both classes of personal property. If the property being assessed was tangible personal property, such as horses, for example, the court thought it was allow-

1. People v. Rhodes. 15 Ill. 275. -0-

2. Griffin v. Board of Review. 184 Ill. 275.

3. Laws: 1871-2. p. 64-5.

4. Allwood v. Cowen et al. 111 Ill. 481.

able to change the findings of the former assessor by adding the specific articles omitted. On the other hand in listing credits the ^{assessor} assumed a judicial position. It became his duty to consider, on the one side, the amount a man owed and, on the other side, the amount he had owing him and to strike a balance between them, which balance he was to enter on the assessment rolls as credits. Having assumed this position of a judge, it was held that his acts could not be reviewed by another assessor in after years.

In fact this judicial activity of the assessor is but a simple process in arithmetic. Each person must, according to the law, list both his credits and his debts if he wishes to have any deduction allowed. ¹ To obtain the net credits the assessor has to but subtract the one amount from the other, the law stating clearly what shall be included in each amount.

It has been held in later decisions that, in case the party assessed returned no credits at all for taxation and notes belonging to him were later discovered, the board of review could tax them, for in this case they would not be reviewing the judicial action of a former assessor as there had been no judicial action involved in the ² case.

In no other case, except this one in regard to the listing of personal property omitted in former years, does the court seem to have interpreted the law in a way to handicap the enforcement or to make the administration **less** easy or thorough.

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1. Morris v. Jones. 150 Ill. 542.
Seigfried v. Raymond. 190 Ill. 424.
Barkley v. Dale. 31.
Pierce v. Carlock. 224 Ill. 608.
2. Sellars v. Barrett. 184. Ill. 446.
People v. Sellars. 179. Ill. 170.

The Taxation of Building and Loan Stock.

Not only have the courts refrained from construing the law so as to make it in any way less effective, but they have, on the other hand, in one case at least, prevented the legislature from doing so. The case is as follows.

In 1887 the legislature amended the law governing the establishment of building and loan associations by adding a provision which declared that, since all moneys paid to such corporations were at once loaned out and placed into taxable property and since, in consequence, the shares of stock and notes were simply evidence as to where such money had been placed, therefore, the stock and notes should not be subject to taxation. This law stood, except for an amendment¹ in 1891 which did not affect the matter of the taxation of _____ stock and notes, until 1894 when it was passed on by the supreme court and declared unconstitutional on the grounds that the legislature had no right to exempt such property from taxation. The legislature, accordingly, during the following year, 1895, changed the law again and made the stock taxable. In determining the value of the stock, however, it was arranged that the value of the real estate owned by the association should be assessed to the association as such. In 1901 another attempt was made to relieve at least a part of the stock of these associations from the burdens of taxation. At this

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1. Laws of Illinois: 1887. p. 131.

2. For the amendment see Laws: 1891. p. 89. For the decision see 153. Ill. 609.

3. Laws: 1895. p. 300-301.

4. An opinion of the attorney general on this law soon after it was passed reads as follows:- "Any stock holder who borrows money from an association, gives a mortgage on real estate to secure the same and also assigns his shares of stock to the association, is not intitled to any deduction by reason of the premises, but should list his stock in accordance with this opinion regardless of the loan."

"Opinions of the Att'y Gen'l. 1897. p. 280. June 10. 1895.

time the act of 1895 was amended so as to hold that no stock which was "loaned upon by and pledged as security to the association issuing it, to an amount equal to the par value of such stock" should be subject to assessment.¹ Less than a year after this law was passed it was declared unconstitutional and the law of 1895 in regard to such property was held to be just and in force.² It was further held that where real estate was taxed to the association and the shares of stock to the individuals, the notes and mortgages held by the association to secure loans were not taxable. It is seen then that the courts by the decision in 1894 prevented the legislature from exempting credits from taxation even though it was clear that it was the judgment of the legislature that failure to exempt such property would cause injustice.

Deduction of Indebtedness.

It may be well to consider at this place another point of interpretation which has an important influence upon the amount of credits reached for taxation; that is, the matter of the deduction of debts. Although this point never seems to have been brought squarely before the court in such a way as to demand a clear and sharp interpretation, it has been discussed to some extent in passing on other questions similar to it in nature. The attorney general, however, has been appealed to at various times for an opinion on the law but the interpretation of the point still seems to be in some confusion.

As has been noted before (See p.16.) the revenue law provides that the property-owner, in making up his credits for taxation,

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1. Laws:1901.p.265.

2.194 Ill.609.Feb.1902.

may deduct from the gross amount^O of his credits, the amount of all bona-fide debts owing by him for consideration received. These debts must be founded upon actual adequate consideration, no acknowledgement being permitted for the mere purpose of deduction, and only such liability can be deducted as must legally and equitably be paid if the principal becomes insolvent. The act does not apply to banks as they are taxed under a different form. Nor is deduction allowed from any property except credits.

The next paragraph of the law defines the credits which are not subject to deduction and specifies some additional property which may not be deducted. The law reads:- "No person, company, or corporation shall be entitled to any deduction from the amount of any bonds, stocks, or money loaned, or on account of any bond, note or obligation or any kind, given to any insurance company on account of premiums, or policies, nor on account of any unpaid subscription to any religious, literary, scientific or charitable institution or society, nor on account of any installment payable on the capital stock of any company, whether incorporated or unincorporated." The real question is the interpretation of this section. Just what credits are subject to deduction and what credits may be deducted?

When an answer to this question is sought among the decisions of the courts, the seeker is disappointed. The matter seems to be touched upon for the first time in 1894 in the case of Morris et al v. Jones.² The question of the deduction of tangible property was under discussion and the court said:- "Money, like horses, cattle, or other chattel property, is taxable under our statutes without reference to the indebtedness of the owner. As to credits, viz., money due, bona-fide debts owing may be deducted." The terms debts and credits

1. Laws: 1871-2. p. 9.
2. 150 Ill. 545.

are used loosely in this case, no care being taken to define them exactly as they are used in the section of the revenue law on the deduction of debts.

The matter is again mentioned in a decision handed down by the supreme court during the same year.¹ The power of the legislature to exempt property from taxation was the point under discussion and it had been urged by one of the parties to the suit that in allowing the deduction of debts from credits the legislature had exercised this power. The court held that this was not true. "In making up the amount of credits," the decision reads, "which any person is allowed to list for himself, or for any other person, company or corporation, he is entitled to deduct from the gross amount of credits, the amount of all bona-fide debts owing by such person, company or corporation, to any other person, company or corporation, for a consideration received. It may be conceded that credits are property, but if a tax-payer holds a promissory note of \$ 1,000 against A and at the same time is indebted to B in the sum of \$ 1,000, he has no credits. If A borrows of B \$ 1,000 and loans the same money to C, can it be said that A has property to the value of \$ 1,000?"

Now it is probable that this judge did not read the entire section of the law on the deduction of debts from credits. If he did read it he interpreted it in a radically different way than the attorney general does when he is asked for information on the point. Indeed the attorney general has uniformly held that, if A borrows of B \$ 1,000 and loans the same money to C, it can be said that A has property to the value of \$ 1,000, and the instructions given to the

assessors by this officer have been to assess such property as a credit not liable to deduction for indebtedness.¹ However unjust it may seem, the law clearly states that persons shall not be allowed to deduct from money loaned.² The attorney general draws his distinction here. Money due in payment for goods sold is a credit subject to de-³duction. Money due in payment for a loan is a credit not subject to

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1. The writer has found one possible exception to this statement. On page 302, Report of the Attorney General, 1897-8, Attorney General Akin says, in an opinion dated May 20, 1898:-

"I am of the opinion that money loaned on a mortgage and note, or note alone, or otherwise, is to be listed and assessed as other personal property and that a party owing such mortgage and note is entitled to deduct, therefrom, his indebtedness."

Seven days later, May 27, on page 308 of the report, he says:-

"I am of the opinion that money loaned on a mortgage and note, or note alone, or otherwise, is to be listed and assessed as other personal property and that a party owning such mortgage and note is not entitled to deduct therefrom, his indebtedness."

In these quotations it is evident that he exactly contradicts himself. In the first opinion he says that the notes are entitled to deduction and in the second that they are not entitled to deduction. It is hardly probable that these two diametrically opposed opinions should have been given out by the attorney general within the same week. It is more probable that a "not" belongs before "entitled" in the first note. That mistakes in proof-reading are frequent in the reports of the attorney general is evidenced to by the fact that the word "owing" in the first extract is obviously meant to be "owning."

Opinions on this question of deduction of debts may be found in the opinions of the attorney general in the following places:-

Report: 1897-8. pp. 300, 302, 308,

Ibid: 1899-1900. p. 256.

Ibid: 1901-1902. p. 265.

Ibid: 1903-1904. pp. 403, 447, 457.

2. Laws: 1871-2. p. 9.

3. Report of the Attorney General: 1897-8. p. 300.

In this case he tells a farmer:- "If you had sold your corn, say for \$ 1,000, and held the purchaser's note for that amount, you would be entitled to deduct therefrom, the amount of your indebtedness."

Report of the Attorney General: 1899-1900. p. 256.

In the case of a man who had sold a piece of land and had taken a mortgage for part of the purchase price, he

deduction. Just why the law should make such a distinction is a natural question which presents itself. No such distinction can be justified from the stand-point of the theory of the tax. If all property is to be taxed, if all credits are property, if a credit is any demand for a valuable thing, how can a distinction be drawn between a credit for money on goods sold and a credit for money on money loaned? The distinction must find whatever justification it may have on the grounds of expediency. If deduction were allowed for money loaned, no one would find difficulty in seeing to it that all their credits were loaned on the day of the assessor's visit. But here again in the willingness of the legislature to pass an unjust law is found a tacit admission of inability to enforce a just one.

Summary.

It may be said, then, that the courts, in interpreting the laws laying a tax on mortgages and credits, have not hindered, in any important particular, the proper working out of the system. If the tax has not been a success it is not because of lack of loyal support from the courts. They have sustained the general theory of the tax as it applies to credits by declaring them to be property even to

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held that, "in such case the mortgage or the indebtedness should be listed as credits from which his bona-fide debts may be deducted."

1. Report and Opinions of the Attorney General. 1903-1904. p. 447.

"A note held for money loaned is subject to assessment and taxation and no debts can be deducted."

2. The writer has been told by the tax officials in Champaign County that in actual practice this distinction is not made. Notes for part payment of land, for example, are not held liable to this deduction. This is in spite of the fact that the auditor's form for the listing of credits for deduction distinguishes between mere notes and notes for money loaned.

the extent of including under that category unsecured promises to pay for goods not yet delivered. In interpreting the laws for the administration of the tax they have, with one possible exception, the case of listing omitted property, done everything possible for them to do toward making the law effective.

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CHAPTER IV.

THE EFFECTIVENESS OF THE LAW LAYING A TAX ON MORTGAGES AND CREDITS.

The task of determining how full and just the assessment of mortgages and credits in Illinois has been, is one which is attended with considerable difficulty. In the first place, the classification of the returns of the assessors is not a good one for the purpose in hand and in the second place, because of the very nature of credits, it is almost impossible to secure an exact estimate of the amount and value of such property liable to assessment, to compare with the actual amount assessed.

Classification of the Assessment.

Credits, or, in the language of the statutes, all claims or demands "for money, labor, interest, or other valuable thing due or to become due",¹ are listed on the assessment rolls under three heads; first, credits of bank, banker, broker, stock-jobber, etc., second, credits of other than bank, banker, broker, stock-jobber, etc., and third, moneys of other than bank, banker, broker, stock-jobber, etc.² The term, "Bank, banker, broker, etc." is defined as "whoever has money employed in the business of dealing in or buying or selling any kind of bills of exchange, checks, drafts, bank-notes, promissory notes, bonds, or other writing obligatory, or stocks of any kind or description whatsoever, or receiving money on deposit."³

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1. Laws: 1871-2. p. 69.

2. The definition of credits in the revenue law excludes, expressly, money on deposit. Since, however, the item "Moneys of Other than Bank, etc." consists very largely of the money of individuals on deposit and, therefore, of bank credit, it was thought to be fairly entitled to a place in the classification. Bonds, which it seems should be logically considered credits, are not regarded as such by the law but are classed in with stocks and listed as a separate item.

3. Section 292.

No one of the three items is a good one for the purpose in view. The first item, as will be shown presently, is merely the result obtained by deducting the debts from the credits of the bankers, neither of the original terms being given. The second item, credits of other than bank, etc., neither makes a distinction between the different kinds of credits, as between mortgages, notes, and book accounts, nor specifies what part of the item was subject to deduction for debts. The third item, moneys of other than bank, etc., represents not only bank credit but also whatever cash the tax-payers may have on hand.

Each of the three items of credits will be examined in turn noting particularly what, according to the law, should be included under each, what amounts have been returned to the auditor of public accounts as assessed under each, and any comparisons it may be possible to make in order to show how full and just the assessment has been.

Credits of Bank, Banker, Broker, Stock-Jobber.

All banks, bankers, brokers, and stock-jobbers in the state, except national banks, were required by the law of 1872 to list their credits under a separate head. In 1903 banks incorporated under the banking laws of Illinois were released from this requirement. Under the law of 1872 each bank was required to make out and furnish to the assessor a sworn statement showing:-

1. The amount of money on hand and in transit.
2. The amount of funds in the hands of other banks, brokers, and others, subject to draft.

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1. Laws: 1871-2. p. 10.

2. Ibid: 1901. p. 266.

3.The amount of checks,or other cash items,the amount thereof not being included in either of the preceeding items.

4.The amount of bills receivable,discounted or purchased,and other credits due or to become due,including accounts receivable,and interest accrued but not due and interest due and unpaid.

5.The amount of bonds and stocks of every kind,and the shares of capital stock of joint stock and other companies or corporations, held as an investment,or in any way representing assets.

6.All other property appertaining to said business,other than real estate,(which real estate shall be listed and assessed as other real estate is listed and assessed under this act).

7.The amount of all deposits made with them by other parties.

8.The amount of all accounts payable other than current deposit accounts.

9.The amount of bonds and other securities exempt by law from taxation,specifying the amount and kind of each,the same being included in the preceeding fifth item.

The first three items were to be listed as moneys.The sixth item was to be listed as other personal property.The difference between the ninth and fifth items was to be listed as stocks and bonds.The result obtained by deducting the seventh and eighth items from the fourth item,if any,was to be listed as credits.In 1903 the law was amended so as to class the second and third items as credits rather than as moneys.¹

In other words the law for the taxation of this class of banks provides,in the first place,for the taxation of the moneys,the

stocks and bonds, and the tangible property and allows no deduction from these classes of property. In the next place credits are taxed but are subject to deduction for all accounts payable. On page forty two is shown the Auditor's form for the listing of the property of bank, banker, broker, stock-jobber, etc.

In order to make the method of taxing the banks more clear and to afford an opportunity of showing the actual items considered in ascertaining the amount to be listed as taxable credits, a report of a single state bank is given. Table I shows the report of the Illinois Trust and Savings Bank of Chicago for May 14, 1901 as given in the report of the auditor on the condition of the state banks on that date. The resources will be first examined. The first item, loans and discounts, is the amount described as credits by the law of 1872. The law of 1903 included also under this head the fifth, sixth, seventh and eighth items of the resource column; but these were classed as moneys under the old law and were not subject to deduction for debts. The United States bonds are exempt from taxation. Other bonds and stocks not especially exempted are listed as "Stocks and Bonds" on the assessment rolls. The real estate is taxed in the regular way. The last four items are taxed as moneys. All the liability column except the first three items are available for counterbalancing the credits.

Table II. shows the amount of the credits and the lawful deductions for this bank as taken from the report given in Table I. In this case the deductions are about twice the amount needed to cancel the credits.

Table III. gives the value of the credits of bank, banker, etc., as returned to the state auditor each year from 1872 until 1909,

AUDITOR'S FORM FOR THE LISTING OF THE PROPERTY OF BANK, BANKER, BROKER,
STOCK-JOBBER.

AUDITOR'S FORM No. 3

Statement by Bank, Banker, Broker, or Stock Jobber, Under Sec. 30, Rev. Law.—Illinois Printing Co., Danville, Ill.

See Extracts from Law on the Other Side of this Sheet.

STATEMENT BY

County, Illinois, as required by Sec. 30 of an Act of the Legislature of the State of Illinois, entitled "An Act for the Assessment of Property and for the Levy and Collection of Taxes," approved March 30th, 1872.

Amount

FIRST—Money on hand or in transit,

First Item (to be listed as money)
(No. 24 of Schedule),

Second Item,
Third Item,
Fourth Item,

Fifth Item,

Ninth Item (to be deducted from
fifth item),

Remainder to be listed as bonds
and stocks,

Total,
Seventh Item,
Eighth Item,
Aggregate amount of the seventh and
eighth (to be deducted from the
second, third and fourth),
Amount remaining (to be listed as cred-
its) (No. 25 of Schedule),

MONIES, \$

; CREDITS, \$

; BONDS AND STOCKS, \$

*NOTE TO ASSESSORS. Item Six includes safes, office furniture, and all other personal property not herein enumerated, and should be distributed to the amount stated, to Items 31, 34, 36, etc., of the regular Schedule.

See Extracts from Law on the Other Side of this Sheet.

STATEMENT BY

County Illinois, as required by Sec. 30 of an Act of the Legislature of the State of Illinois, entitled "An Act for the Assessment of Property and for the Levy and Collection of Taxes," approved March 30th, 1872

- | | |
|---|---------------|
| | Amount |
| FIRST - Money on hand or in transit | |
| SECOND - Fund in the hands of other banks, bankers, brokers and others, subject to draft. | |
| THIRD - The amount of checks, or other cash items, the amount thereof not being included in either of the preceding items. | |
| FOURTH - The amount of BILLS RECEIVABLE (discounted or purchased), and OTHER CREDITS due or to become due, including Accounts Receivable and interest accrued but not due, and interest due and unpaid. | |
| FIFTH - The amount of BONDS AND STOCKS of every kind, and Shares of Capital Stock of Joint Stock or other Companies or Corporations held as an investment, or in any way representing assets. | |
| SIXTH - All other property appertaining to said business other than real estate (which real estate is to be listed and assessed as other similar property is listed and assessed) * | |
| SEVENTH - The amount of all deposits made with them by other parties. | |
| EIGHTH - The amount of all accounts payable, other than current deposit accounts. | |
| NINTH - The amount of bonds or other securities exempt by law from taxation, specifying the amount and kind of each, the same being included in the preceding fifth item. | |

I, _____ do solemnly swear that the above statement is true according to the best of my knowledge and belief

Subscribed and sworn to before me, this _____ day of _____ 190 _____

Assessor's Analysis Preparatory to Listing for Taxation.

First Item (to be listed as money) (No. 24 of Schedule), \$		Second Item, \$			
		Third Item, \$			
		Fourth Item, \$			
		TOTAL,\$
Fifth Item, \$		Seventh Item, \$			
Ninth Item (to be deducted from fifth item), \$		Eighth Item, \$			
Remainder to be listed as bonds and stocks, \$		Aggregate amount of the seventh and eighth (to be deducted from the second, third and fourth), \$			
		Amount remaining (to be listed as credits) (No. 25 of Schedule), \$			
MONEYS, \$;	CREDITS, \$;	BONDS AND STOCKS, \$	

*NOTE TO ASSESSORS - Item Six includes safe, office furniture, and all other personal property not herein enumerated and should be distributed, to the amount stated, to items 31, 34, 36, et al. of the regular Schedule

TABLE I.

STATEMENT OF THE CONDITION OF

THE ILLINOIS TRUST AND SAVINGS BANK.CHICAGO.

John J.Mitchell.President.

James S.Gibbs.Cashier.

May 14,1901.

Resources		Amount	Liabilities		Amount
Loans & Discounts.	36	059 402.51	Capital Stock.....	3	000 000.00
U.S.Bonds inc.Pre.		48 378.01	Surplus Fund.....	4	000 000.00
Other Bonds & Stocks inc.Prem.	15	415 954.13	Undiv.Prof.less Ex-		
Other Real Estate.		369 886.79	pense & Taxes Paid.		407 046.85
Due Fr.Nat'l Banks	8	563 149.72	Time Dep.-Savings....	36	877 109.29
Due Fr.State Banks	1	877 791.18	Time Dep.-Certificate	2	889 492.04
Exch.for Cl.House.		780 345.77	Dem.Dep.-Individual..	26	631 365.50
Checks & Cash Item	2	489 586.56	Dem.Dep.-Certificates		39 585.74
Gold.			Dem.Dep.-Cer.Checks..		155 055.20
Coin.3 245 500.00			Dem.Dep.-Cashier's Ck		552 311.79
Cert.5 360 500.00	8	606 000.00	Due to Nat'l Banks...		
Silver.Coin.....		6 658.00	Due to State Banks...	1	507 340.70
Currency					
Nat'l Banks					
Leg.Ten.&Treas.					
Notes.....	1	821 304.00			
Fac.Currency					
Nickels & Cents.		20 970.44			
Total Resources...	76	059 307.11	Total Liabilities...	76	059 307.11

TABLE II.

STATEMENT SHOWING TOTAL AND NET TAXABLE ASSETS.

Compiled from the Report of May 14, 1901.

THE ILLINOIS TRUST AND SAVINGS BANK.-Chicago.

Loans and Discounts.....		36 059 402.51
Overdrafts.....		
Total Taxable Credits.....		36 059 402.51
Subject to the Following Deductions		
Time Deposits-Savings.....	36 877 109.29	
Time Deposits-Certificates.....	2 889 492.04	
Demand Deposits-Individual.....	26 631 365.50	
Demand Deposits-Certificates.....	39 585.74	
Demand Deposits-Certified Checks.	155 055.20	
Demand Deposits-Cashier's Checks.	552 311.79	
Due to National Banks.		
Due to State Banks and Bankers...	1 507 340.70	
		68 652 260.26
Net Taxable Credits.....		

TABLE III.

ANNUAL ASSESSED VALUE OF CREDITS OF BANK, BANKER, BROKER, STOCK-JOBBER.

1872-1909.

As Returned to the Auditor of Public Accounts.

	Entire State	Cook County
1873	1 626 745	126 032
1874	1 827 984	387 992
1875	1 953 223	349 573
1876	1 322 028	40 625
1877	1 288 980	10 885
1878	1 263 745	7 551
1879	1 011 774	21 375
1880	1 414 971	55 342
1881	1 279 071	149 800
1882	1 394 175	77 160
1883	1 483 842	141 790
1884	1 443 188	98 615
1885	1 337 114	105 610
1886	1 066 407	91 595
1887	963 196	80 980
1888	1 056 900	67 800
1889	1 057 055	68 000
1890	1 050 489	30 308
1891	1 211 425	14 149
1892	1 475 074	8 200
1893	1 647 660	22 375
1894	1 563 583	10 000
1895	1 724 611	12 225
1896	1 689 190	16 400
1897	1 417 292	129 800
1898	1 595 813	12 180
1899	3 474 848	1 919 433
1900	1 919 722	236 366
1901	2 412 505	182 120
1902	2 800 441	346 552
1903	2 968 099	248 978
1904	3 055 201	348 824
1905	3 539 058	233 013
1906	2 173 885	286 069
1907	3 872 426	247 924
1908	3 902 282	229 073

from the entire state and from Cook County. The period of from 1872 to 1902 will be considered first because of the fact that the law exempting state banks went into effect in 1902. The assessed value of the credits in 1873 was \$ 1 626 745 and in 1901 was \$ 2 412 505. The lowest return was in 1887 when but \$ 963 196 was assessed and the highest was in 1899 when \$ 3 474 848 was assessed. The increased return in 1899 was probably occasioned by the shake-up attendant upon the introduction of the revenue law of 1898 with its assessed valuation of one fifth the fair cash value. The increase was not permanent, however, for the assessment in the following year, 1900, was but \$ 1 919 722, nearly one hundred per cent less than the amount assessed in 1898. The law of 1903, classing articles two and three as credits seems to have had the effect of increasing the assessment in each year except 1906.

The table reveals no falling off in the assessment because of the exemption^P, in 1901, of banks incorporated under the state law. In 1901 the amount returned was \$ 2 412 505; in 1902, the year the law went into effect, the amount was \$ 2 800 441; in 1903 it was \$ 2 968 099. This would seem to show that the credits of the state banks, even while assessed under this form, played no important part in making up the total return. An investigation of the quarterly reports of the state banks from 1889, the year the law requiring them to report to the auditor went into effect, until 1902, when these banks were released from taxation under this form, shows that the state banks, as a whole, had no credits assessable under this act. Table IV. gives the total credits and the total amounts available for counterbalancing them for all the state banks during the period under discussion. It may be seen that the deductions counter-balance the credits for every

year in the period.

TABLE IV.

ANNUAL TOTAL TAXABLE CREDITS AND LAWFUL DEDUCTIONS OF THE STATE BANKS

1889-1901.

As Reported to the Auditor of Public Accounts.

	Date	Total	Taxable	Credits	Deductions				
1889	2/15	22	393	128	63	25	078	406	80
1890	10/8	48	280	816	01	53	455	929	85
1891	11/14	61	403	596	22	68	217	485	87
1892	7/28	72	325	657	51	85	420	173	20
1893	4/10	82	817	124	51	91	851	448	91
1894	5/17	64	428	205	12	90	907	076	61
1895	3/20	80	484	191	95	94	018	583	96
1896	6/3	87	975	394	35	103	669	742	03
1897	5/11	76	782	661	15	108	564	488	19
1898	4/6	92	011	513	31	129	462	790	50
1899	7/1	106	034	727	96	170	199	744	89
1900	4/27	119	527	993	22	176	648	567	55
1901	5/14	139	011	322	59	218	805	960	37

But this table is misleading. The statistics are taken from the summaries of the reports for each year whose dates most nearly coincide with the dates of the assessments for which the data was obtainable. Since, then they are taken from the summaries, it must not be understood that no individual state bank had a balance of credits over accounts payable. The table shows merely that the state banks as a whole had no such balance. The state banks, however, are not assessed as a whole but as individuals. Table V. gives a statement of the taxable credits subject to deduction, the lawful deductions, the balance of deductions over credits, and the net taxable credits of each individual state bank in Cook County reporting to the auditor on April 27, 1900. This table shows that, although for the banks, considered col-

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1. In a "Report on Taxation" published as part of the annual report of the bureau of labor statistics of Illinois for 1894, the following table was included, compiled from the statement of the

TABLE V.

Total Taxable Credits, Lawful Deductions, Balance of Deductions and Net Taxable Credits of the State Banks in Cook County, April 27, 1900, as compiled from

Reports to Auditor	Total Taxable Credits	Deductions	Balance of Deduction	Net Taxable Credits
—Bank—				
Avenue State Bank Oak Park	108 753 05	224 940 27	116 287 22	
Bank of Chicago Heights	131 451 09	188 339 26	56 888 17	
Bank of Harvey	105 907 73	171 149 43	65 241 10	
Chicago City Bank	516 703 56	501 587 74		45 115 82
Foreman Bros. Banking Co.	2 573 144 62	160 053 58		4,13 091 04
Garden City Banking & Trust Co.	2 025 473 31	2 332 622 44	301 148 45	
Illiparian Banking Association	4 890 160 79	7 294 309 78	2 404 148 99	
Home Savings Banks		1 291 725 28	1 291 725 28	
Illinois Trust and Savings Bank	34 905 190 61	39 601 010 24	24 695 370 03	
La Grange State Bank	112 658 76	128 164 81	15 500 05	
Lemont State Bank	15 023 70	23 060 33	8 036 63	
Milwaukee Ave. State Bank	1 152 044 11	1 165 803 49	312 705 38	
Oak Park State Bank—Oak Park	590 992 54	742 418 84	151 426 30	
Peerson-Taft Land Credit Co.	751 023 96	069 051 88		108 344 79
Prairie State Bank	2 369 318 53	3 121 209 60	751 891 07	
Pullman Loan & Savings Bank	822 352 03	1 440 052 46	617 700 43	
Royal Trust Company	1 936 892 85	2 364 323 77	427 430 92	
State Bank of Chicago	4 552 061 94	5 474 348 95	922 281 01	
State Bank of Evanston	628 083 30	1 129 788 20	501 704 90	
State Bank of West Pullman	63 656 00	82 153 33	18 491 33	
American Trust & Savings Bank	6 225 791 68	9 854 349 96	3 628 608 28	
Merchants' Loan & Trust Co.	13 334 768 38	21 097 983 40	7 763 215 02	
The Northern Trust Co.	9 266 281 56	17 101 825 51	7 835 543 95	
The Western State Bank	531 783 03	503 261 48		28 521 55
The Union Trust Co.	2 937 505 13	4 323 724 14	1 446 219 01	
	80 637 622 34	143 907 914 17	53 407 542 72	595 073 20

lectively, the total lawful deductions amount to nearly twice as much as the total taxable credits subject to deduction, yet, for the banks considered individually, the deductions do not equal the credits in

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auditor showing the condition of the Chicago state banks on June 5, 1893.

AS TO TAXABLE CREDITS.

Resources of 27 Chicago State Banks as Shown by the Auditor's Report.

Loans and Discounts.....	59 995 715 29
Bonds and Stocks (Other than U.S.).....	8 099 450 78
Overdrafts.....	101 605 00
Net Taxable Credits.....	68 196 851 07
Subject to the Following Deductions.	
Savings Deposits.....	21 275 598 93
Individual Deposits.....	33 578 645 52
Demand Certif. of Deposit.....	2 049 027 18
Time Certif. of Deposit....	3 686 203 97
Certified Checks.....	852 145 65
Cashier's Checks.....	498 367 74
Due to Other Banks.....	5 132 847 11
Re-Discounts.....	65 909 72
	67 138 745 82
Net Taxable Credits.....	1 058 105 25
Net Credits Listed.....	10 000 00
Difference.....	1 048 105 25

The comment on the table is as follows:—"From the statement of the State Auditor, inserted between pages 32 and 33, it appears that twenty seven state banks in the city of Chicago have one hundred times as much net credit... as are listed for all the banks except national, all the bankers, brokers, and all the stock-jobbers of Cook County together, the twenty seven banks included... Over one million dollars of net credit in twenty seven Chicago banks in June, and but ten thousand dollars in net credits... from all the banks (national banks excluded), bankers, brokers, and stock-jobbers in the whole of Cook County on the first of the following May!"

This table is, in the opinion of the writer, very faulty. Its errors are, indeed, so serious that the table is rendered utterly worthless. In the first place, the item "Bonds and Stocks" should not be included in the statement of credits at all, for the law specifically says that this item shall be listed as "Bonds and Stocks" on the assessment roll and no deduction shall be allowed from them. Subtracting this item from the total taxable credits as given in the table, the result obtained is \$60 097 400.29 instead of \$68 196 851.07. Accounts payable to the amount of \$67 138 745.82 are available to counter-balance this sum. There are, therefore, no net taxable credits.

four particular cases; so that there should have been a return to the assessor, if the assessment had been made on this date, of net taxable credits amounting to \$595,073.20¹. Referring to Table III, it is found that the amount of credits of bank, banker, broker, etc., assessed in Cook County in 1900 was \$236 366, about one half of the taxable credits as found in Table IV. Several things should be considered, however, in making this comparison. The first is that the dates on which the two tables were made are not identical. Table III is based on the assessment returns supposed to be made on April 1, and Table IV. is made up from a report dated April 27, there being a difference of nearly a month between. The second thing to remember is that the return of \$236 366 is the assessed valuation and not a real cash value. When this sum is multiplied by five, the comparison becomes a more fair one. The third thing to consider is, that the sum of \$595,073.20 represents the credits of only the banks incorporated under the state banking laws. The credits of private banks, banks of special charter,

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Not only is the table liable to this criticism but it is open also to another objection. The table is merely a compilation of the summaries of the twenty seven state banks. The table treats the banks collectively while the assessor treats them individually. In order to make a just comparison it is necessary to ascertain the net taxable credits, if any, of each individual bank and add them together. If the author of the "Report on Taxation" had done this he would have obtained a much more startling result than he did obtain even when he included bonds and stocks as credits. As worked out in Table VI, the net taxable credits of the twenty seven state banks in Chicago on June 5, 1893, are found to be \$2 507 320 72, as compared with the \$1 048 105 25 which amount was presented as the net taxable credits in the report.

1. The year 1900 is selected for the reason that it is probably the most normal late year which could have been taken. 1899 was the year in which the new revenue law went into effect. In 1901 the state banks were exempted from making their return in this form. The date of the bank statement in this case is, also, not far from the date of the assessment.

and of all other parties coming under the definition in the law, are not included in this sum. It is evident, however, that the reports of the state banks of Cook County for 1900 reveal no glaring evasion of the tax on the credits of bank, banker, broker, etc.

Table VI. is compiled from a special report to the auditor on the condition of the state banks in Chicago on June 5, 1893. It shows a total of net credits liable to assessment of \$2 507 320.72. The credits of this class assessed in Cook County on May first of this year, thirty six days before the report of the auditor, amount to \$22 375. Assuming that this amount is but one fourth or one fifth of the actual cash value of the credits assessed, the amount of the credits of the state banks in Chicago alone would amount to over twenty five times the value of the assessed credits. It should be noted that this report was made at a time when conditions were abnormal; a period of financial stridency was on and it is possible that the relation of the loans and discounts to the deposits changed very radically in the space of the month which intervenes between the dates on which the figures were taken.

In summary it may be said that:

1. The term "Credits of Bank, Banker, Broker, Etc.", as defined by the law means the result, if any, obtained by subtracting all deposits and all accounts payable from all loans and discounts, and overdrafts.
2. The assessed value of such credits as returned to the auditor varies, in the thirty five years, from about one million dollars to about four million dollars. For most of the years the return was about one million dollars.
3. The total amount which should have been assessed is not ascertainable. Reports for the state banks of Cook County in 1900 seem to

TABLE VI.
Condition of Chicago State Banks. June 5 1893. Auditor's Report.

	Total Taxable Credits	Deductions	Balance of Deductions.	Net Taxable Credits
1. Bank of Commerce.....	1 309 115 96	1 536 973 39	277 857 63	
2. Bank of Illinois.....	355 815 33	198 313 57		157 501 76
3. Central Tr. & Sav. Bank.....	162 869 30	54 228 95		108 241 27
4. Chicago City Bank.....	829 113 67	404 133 23		424 980 44
5. Chicago Tr. & Sav. Bank.....	1 134 434 06	956 142 35		178 291 71
6. Commercial Loan & Tr. Co....	7 043 022 79	7 857 974 15	814 951 36	
7. Corn Exchange Bank.....	480 856 76	503 438 62	22 581 86	
8. Dime Savings Bank.....	1 081 646 30	1 051 279 22		30 367 08
9. Garden City Bk. & Tr. Co....	693 278 42	649 721 59		53 556 83
10. Globe Savings Bank.....	236 751 59	315 546 78	78 795 19	
11. Home Savings Bank.....	264 050 00	21 862 93		242 187 07
12. Homestead Loan & Guar. Co.	15 015 375 97	18 856 185 58	3 840 809 61	
13. Ill. Tr. & Sav. Bank.....	271 995 79	129 737 33		142 258 46
14. Industrial Bank of Chi....	1 406 957 31	958 592 89		448 364 42
15. International Bank.....	25 000 00	590 014 31		25 000 00
16. Merchants State Bank.....	759 983 64	646 349 47		169 969 33
17. Milwaukee Ave. State Bank.	722 076 42	646 349 47		75 726 95
18. Northwestern Bd. & Tr. Co..	884 368 60	531 154 53		353 214 07
19. Royal Trust Company.....	107 502 49	18 202 65		89 299 84
20. South Side State Bank....	2 087 165 85	2 101 863 54	14 697 69	
21. State Bank of Chicago.....	3 937 478 98	4 937 478 98	938 672 59	
22. The Amer. Tr. & Sav. Bank...	2 962 716 02	2 954 354 53		8 361 49
23. The Hibernian Bank. Asso..	9 456 229 52	10 517 370 85	1 061 141 33	
24. The Merchants Loan & Tr..	4 264 573 75	5 849 280 90	1 574 707 15	
25. The Northern Trust Co.....	1 458 853 54	2 283 862 65	825 009 11	
26. The Prairie St. Sav. & Tr..	2 148 769 14	3 074 530 16	925 761 02	
27. Union Trust Co.....				
			10 374 984 64	2 507 320 72

give no evidence of evasion. A report for the state banks of Chicago in 1893 gives statistics which would indicate a very serious evasion. Credits of this class are capable of varying so radically from day to day that it is impossible to make any definite statement as to evasion of the tax from the material at hand.

Credits of Other Than Bank, Banker, Broker, Stock-Jobber.

All property owners except those included in the definition of bank, banker, broker, etc., are expected to list their credits under the head of "Credits of Other Than Bank, Banker, Broker, Stock-Jobber." As explained before (p 38) credits, in this case, do not include bonds and stocks and money on deposit. They do include, however, all other claims or demands for anything of value except in so far as these claims are counterbalanced by indebtedness. Some credits, viz., for money loaned, are not liable to deduction for debts and some debts, viz., obligations to insurance companies on account of premiums of policies unpaid subscriptions to societies and unpaid installments on capital stock, are not available for counterbalancing credits.¹

The amount returned to the auditor under this head should, then, include all money loaned. It should also include all other claims for anything of value not canceled by bona-fide debts.

On page 54 may be found the Auditor's form for listing credits of other than bank, banker, broker, etc.

Table VII. gives the annual assessments of the credits of other than bank, banker, broker, etc., from 1872 to 1909, for the entire state and for Cook County.

The assessed value of the credits for the entire state in 1873, was \$35 817 524. This was the year after the adoption of the

DEDUCTIONS FROM CREDITS

CLAIMED BY AND ALLOWED TO

Town of

19.....

These statements and affidavits must be alphabetically arranged, and upon return of the Assessment Books, filed with the County Clerk, to be kept on file in his office for two years, and at the expiration of such time, destroyed by said Clerk.

CREDITS DEFINED.—SEC. 292.

Every claim or demand for money, labor, interest, or other valuable thing, due or to become due, not including money on deposit.

NOTE.—Bonds and stocks are to be listed as such—28th item of Schedule—the 25th and 28th Sections of the Revenue Law excluding them from being treated or listed as credits.

PANTAGRAPH P. & S. CO. BLOOMINGTON, ILL.

EXTRACTS FROM THE REVENUE LAW.

SEC. 20. Persons, for themselves or others, holding bonds or stocks of any kind, the principal of which bonds or stocks has been or may hereafter be exempted from taxation, shall list the amount of accrued interest on such bonds, without regard to the time when the same is to be paid.

SEC. 21. Where a deed for real estate is held for the payment of a sum of money, such sum so secured, shall be held to be personal property, and shall be listed and assessed as credits.

SEC. 27. In making up the amount of credits which any person is required to list for himself, or for any other person, company, or corporation, he shall be entitled to deduct from the gross amount of credits, the amount of all *bona fide* debt owing by such person, company, or corporation, to any other person, company, or corporation, for a consideration received; but no acknowledgment of indebtedness not founded on actual consideration, believed when received to have been adequate, and no such acknowledgment made for the purpose of being so conducted shall be considered a debt within the meaning of this section; and so much only of any liability as surety for others shall be deducted as the person making out the statement believes he is legally and equitably bound and will be compelled to pay on account of the inability or insolvency of the principal debtor; and if there are other sureties who are able to contribute, then only so much as the surety in whose behalf the statement is made will be bound to contribute. *Provided*, that nothing in this section shall be so construed as to apply to any bank, company, or corporation exercising banking powers or privileges, or to authorize any deduction allowed by this section from the value of any other item of taxation than credits.

SEC. 28. No person, company, or corporation shall be entitled to any deduction from the amount of any bonds, stocks or money loaned, or on account of any bond, note, or obligation of any kind, given to any insurance company on account of premiums or policies nor on account of any unpaid subscription to any religious, literary, scientific, or charitable institution or society, nor on account of any subscription to, or installment payable on the capital stock of any company, whether incorporated or unincorporated.

SEC. 29. In all cases where deductions are claimed from credits, the assessor shall require that such deductions be verified by the oath of the person, officer, or agent claiming the same; and any such person, officer, or agent, knowingly or wilfully making a fraudulent statement of such deductions claimed, so verified by affidavit, shall be liable to a fine of not less than one hundred dollars nor more than one thousand dollars in addition to all damages sustained by the state, county, or other local corporations, to be recovered in any proper form of action in any court of competent jurisdiction, in the name of the People of the State of Illinois.

AUDITOR'S FORM NO. 2.

See extracts from Revenue Law on reverse of the sheet.

CERTIFICATE OF INDEBTEDNESS (for deductions from Credits) Secs. 27 and 28, Revenue Law.

STATEMENT OF CREDITS and the authorized DEDUCTIONS therefrom as made by

of _____ County of _____ and State of Illinois,

in behalf of _____ and for the purpose of determining the amount of credits to be listed by _____ for taxation for the year 19____ said statement being made with reference to credits owned and bona fide debts owing on the first day of April in the said year.

NOTE—Bonds and stocks are not to be listed as credits. No deductions are permitted from credits for money loaned, or from bonds or stocks

DETAILED MEMORANDA (For Convenience of Persons Listing)		DOLLARS.	Cts.
CREDITS.			
Amounts due or to become due, from other Persons, Companies, or Corporations.	(a) Notes (other than for money loaned,)		
	(b) Accounts,		
	(c) Money secured by deed for Real Estate (other than as security for money loaned.) (See Sec. 21.)		
	(d) Interest accrued but not due. (See Sec. 20.)		
	(e) Interest due and unpaid,		
	(f) Rents accrued but not due,		
	(g) Rents due and unpaid,		
	(h) Payable in labor or service of any kind, (current price,)		
Amount of every other claim or demand for money or other valuable things, (not including money loaned or on deposit, or bonds, or stocks.)			
TOTAL CREDITS,			
DEDUCTIONS.			
Amount of bona fide debts owing to Persons, Companies, or Corporations for a consideration received	(a) Notes,		
	(b) Accounts,		
	(c) Interest accrued, but not due,		
	(d) Interest due and unpaid,		
	(e) Rents accrued, but not paid,		
	(f) Rents due and unpaid,		
	(g) Payable in labor or service (current price,)		
	(h) Proportion certain to pay as security for others,		
Amount of all other bona fide indebtedness, not excluded from being deducted by Sections 27 and 28 of the Revenue Law,			
Total deductions authorized by law,			
Net credits other than money loaned,			
Add whole amount of money loaned (from which no deductions are permitted,)			
*Net amount of credits April 1, 19____, to be entered for taxation for the year 19____, as the 27th item in the Schedule of Personal Property,			
*In case the deductions equal or exceed the gross credits as above stated, only the amount of money loaned, if any, is to be listed as credits.			

STATE OF ILLINOIS, }

County, }

The undersigned _____

being duly sworn, deposes and says that on the first day of April 19____ there were bona fide debts owing by _____ founded on an actual consideration believed when received to be adequate

to the amount of _____ Dollars; that no part of said indebtedness was made or acknowledged for the purpose of reducing the amount of credits by him listed for taxation; that such part of said indebtedness as consists of any liability as surety for others includes only so much of such liability as he believes that he is legally and equitably bound and will be compelled to pay on account of the inability or insolvency of the principal debtor, exclusive of what other sureties are bound and able to contribute; that the indebtedness above stated does not include any bond, note, or obligation of any kind given to any Insurance Company on account of Premiums or Policies, nor any unpaid subscription to any religious, literary, scientific, or charitable institution or society, nor on account of any subscription to or instalment payable on the capital stock of any Company, whether incorporated or unincorporated; that the whole amount due or to become due from other persons, companies, or corporations to _____

for money loaned, was on the first day of April, 19____, _____ Dollars, and that no portion of said amount is included in the amount of gross credits from which bona fide debts are deducted, as noted in the above detailed statement.

Subscribed and sworn to before me, this

_____ day of _____ 19____

Assessor.

TABLE VII.

ANNUAL ASSESSED VALUE OF CREDITS OF OTHER THAN BANK, BANKER, BROKER,
STOCK-JOBBER, ETC. 1872-1909.

As returned to the Auditor of Public Accounts.

	Entire State	Cook County
1873	35 817 524	455 585
1874	26 414 690	335 122
1875	24 018 237	146 124
1876	20 882 718	146 882
1877	19 562 191	77 412
1878	17 673 412	153 337
1879	15 849 665	110 338
1880	17 680 302	211 815
1881	16 904 523	830 431
1882	15 161 947	513 639
1883	14 182 182	85 797
1884	14 421 309	209 446
1885	13 102 498	250 239
1886	12 749 614	297 906
1887	12 160 825	117 170
1888	11 441 861	119 990
1889	11 214 988	130 413
1890	11 175 380	190 535
1891	11 014 152	137 475
1892	10 922 575	123 605
1893	10 708 700	142 745
1894	11 343 365	522 110
1895	10 342 774	67 660
1896	10 592 422	83 084
1897	10 274 417	80 101
1898	12 308 605	1 446 795
1899	26 541 451	7 875 889
1900	22 181 440	2 819 312
1901	24 271 645	4 363 420
1902	23 572 219	4 680 194
1903	22 082 413	3 227 372
1904	22 628 074	3 712 455
1905	21 467 724	2 751 212
1906	22 720 543	3 463 790
1907	25 866 300	5 803 866
1908	21 418 528	1 357 322

revenue law. The returns steadily fall off until in 1897 the lowest limit was reached, at which time the assessment amounted to \$10 274 417. The new revenue law went into effect in 1899 and in that year more credits were taxed than had been taxed since 1873, the amount being \$26 541 451. After this year the assessment steadily declines and in 1908 the amount assessed was approximately five million dollars less than in 1899.

The fluctuations in the assessment of this class of credits in Cook County is even more violent. In 1895, for example, the return was \$67 660. Four years later, in 1899, the amount assessed was \$7 875 889, over one hundred times as much as was listed in 1895. Here, as in the case of the credits for the entire state, the putting into force of a new law seems to have had the effect of increasing the assessment.

It may be said, then, that the assessment of this class of credits does not show the steady increase which might be expected. The fluctuations in the assessment are much more violent than one would expect them to be, if they corresponded at all closely with the actual amount of credits in existence.

It is interesting to compare the returns of Cook County, including Chicago, with those of the remainder of the state. Although the use of population as an index to the amount of credits owned may be open to some criticism, it seems fair enough for the purposes of rough comparison to assume that the amount of credits in a community should bear a general relation to the population. If, then, the credits assessed in Cook County as compared with those assessed in the entire state except Cook County, do not bear some general relation to the population of Cook County as compared with the population of the

rest of the state, it is safe to draw some conclusions as to whether or not Cook County has borne her share of the tax burden in so far as this item is concerned.

Table VIII. shows, first, the population of Cook County and the remainder of the state and the ratio existing between them for each decade in the period under consideration as shown by the census, and, second, the assessed value of the credits of other than bank, banker, broker, etc., in Cook County and the remainder of the state and the ratio between them for each year from 1873 until 1909 as shown by the reports to the auditor. Considering the period as a whole it is found that, while Cook County contained, during these years, approximately one third as many people as the remainder of the state, they were assessed on but one twelfth as many credits as the remainder of the state. Or, putting it in another way, if the population is taken as an index of the amount of credits of other than bank, banker, broker, etc., owned in a community, Cook County listed but one fourth as many credits per individual as were owned and listed by the other counties of the state.

The only year in which Cook County seems to have borne its share of the assessment ^{was} in 1899, when it listed \$ 7 875 889 as compared with \$18 665 562 listed by the other counties of the state. The most striking instance of disproportionate assessment is found in 1895. In this year counties other than Cook County contained only about twice as many people as Cook County and yet they listed one hundred and fifty three times as many credits of this class as did

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1. This does not consider the changes made in the assessment by the board of equalization. It is intended only to show the difference between the number of credits listed in Cook County and the other counties of the state.

TABLE VIII.

COMPARISON OF COOK COUNTY WITH THE REMAINDER OF THE STATE IN RESPECT
TO POPULATION AND ASSESSED VALUE OF CREDITS OF OTHER THAN
BANK, BANKER, BROKER, STOCK-JOBBER, ETC.

YEAR	STATE EXCEPT	POPULATION COOK	COOK COUNTY	RATIO
1870	2 189 925		349 966	6:1
1880	2 470 347		607 524	4:1
1890	2 634 359		1 191 992	2:1
1900	2 982 825		1 838 735	1.6:1
	10 277 456		3 988 217	2.6:1
	CREDITS OF OTHER THAN BANK, ETC.			
1873	36 361 939		455 585	78:1
1874	26 079 568		335 122	78:1
1875	23 872 113		146 124	164:1
1876	20 735 836		146 882	142:1
1877	19 484 779		77 412	253:1
1878	17 520 075		153 337	115:1
1879	15 739 327		110 338	143:1
1880	17 468 487		211 815	83:1
1881	16 074 092		830 431	19:1
1882	14 648 308		513 639	28:1
1883	14 096 385		85 797	165:1
1884	14 211 863		209 446	68:1
1885	12 852 259		250 239	51:1
1886	12 451 708		297 906	42:1
1887	12 043 655		117 170	103:1
1888	11 321 871		119 990	95:1
1889	11 084 575		130 413	85:1
1890	10 984 855		190 535	57:1
1891	10 876 677		137 475	79:1
1892	10 798 970		123 605	88:1
1893	10 565 955		142 745	74:1
1894	10 821 255		522 110	21.1:1
1895	10 275 114		67 660	153:1
1896	10 509 338		83 084	126:1
1897	10 194 318		80 101	127:1
1898	10 861 810		1 446 795	8:1
1899	18 665 562		7 875 889	2:1
1900	19 362 128		2 819 312	7:1
1901	19 808 225		4 363 420	5:1
1902	18 892 025		4 680 194	4:1
1903	18 855 041		3 227 372	6:1
1904	18 915 619		3 712 455	5:1
1905	18 716 512		2 751 212	7:1
1906	19 256 753		3 463 790	5:1
1907	20 062 434		5 803 866	4:1
1908	20 061 206		1 357 322	15:1
	584 530 637		47 040 588	12:1

Cook County. Putting the same thing in another way it may be said that for every dollar's worth of credits per unit of population listed in Cook County in 1895, seventy six dollars' worth was listed in the other counties of the state.

A marked improvement in the assessment, as considered from this stand-point of equality of distribution between Cook County and the rest of the state, is evident from 1898 on until the present time.

A four hundred and twenty per cent drop is apparent in the assessment of credits in Cook County in 1908. This was probably caused in part at least by the financial crisis of 1907. No such falling off in credits listed is found, however, in the other counties of the state. This would seem to mean either that the effect of the crisis was not felt in the outside counties or that the assessment in Cook County was singularly lax at this time.

Taking the returns for the year 1908, the latest information obtainable, a more particular investigation has been made of the returns, per unit of population, from some of the counties. Table IX. gives the credits of other than bank, banker, broker, etc., per unit of population for Cook County and for the fifteen counties listing the next highest amounts of credits of this class. About seventy five cents worth of credits (\$.738) was listed for each person in Cook County while an average of nearly six dollars and seventy five cents worth (\$6.72) was assessed for each person in the state outside of Cook County. Winnebago County, with a population of but 47,845 listed practically the same amount of credits as Cook County with a population of 1,838,735. Warren County listed thirty five times as many credits per person as Cook County. LaSalle County, The county making

TABLE IX.

CREDITS OF OTHER THAN BANK, BANKER, BROKER, STOCK-JOBBER, ETC. PER UNIT OF POPULATION FOR COOK COUNTY AND THE FIFTEEN COUNTIES LISTING THE NEXT HIGHEST AMOUNTS IN 1908 AS SHOWN BY REPORTS OF AUDITOR OF PUBLIC ACCOUNTS.

	Credits Listed	Population 1900	Credits Per Person
Cook.....	1 357 322	1 838 735	.738
Winnebago.....	1 170 095	47 845	24.474
Kane.....	1 053 105	78 792	13.366
McLean.....	967 852	67 843	14.266
Sangamon.....	716 040	71 593	10.001
Morgan.....	617 470	35 006	17.639
Vermillion.....	592 464	65 635	9.002
Warren.....	564 757	23 163	24.382
Whiteside.....	485 203	34 710	13.939
Adams.....	470 881	67 058	7.002
LaSalle.....	468 358	87 776	5.34
Ogle.....	457 007	29 129	15.69
Fulton.....	453 852	46 201	9.82
McDonough.....	437 888	28 412	15.41
Knox.....	420 892	43 612	9.65
Iroquois.....	377 088	38 014	9.92
State Except Cook.....	20 061 206	2 982 715	6.72

the lowest showing of any of the fifteen counties in point of the amount of credits assessed per person, lists seven times as many credits per person as Cook County.

These comparisons would seem to show in a rather conclusive way that the assessment of credits of other than bank, banker, broker, etc., is not just and equitable between the counties of the state.

These tables have proved nothing, however, as to the fullness of the entire assessment. Only the amounts actually assessed have been thus far considered and nothing has been said of the property which should have been assessed and was not reached by the assessor.

In seeking for information as to the amount of the credits of other than bank, banker, broker, etc., actually in existence and liable to assessment, it was found that the best material obtainable was the report of the Bureau of Labor Statistics for 1888, which contains an investigation into the mortgage indebtedness of the state. This report, although old, seems to give the only information obtainable from which any accurate estimate can be made of the property lawfully taxable under this head. Mortgages are, indeed, not the only kind of property included under this classification but they probably form the great bulk of the item and afford some basis for comparison with the assessment returns.

The mortgages in force in the entire state and in Cook County in 1880 and in 1887 as shown in this report are given in Table X. The amounts given in the table are obtained by multiplying the mortgages recorded during the year by the average length of the

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1. These statistics bear out the assumption made in the previous tables that the population is an index to the amount of credits owned in a community.

term which the instruments were to run.

TABLE X.

MORTGAGES IN FORCE IN THE STATE AND IN COOK COUNTY IN 1880 and 1887.

	ENTIRE STATE.		
	1880		1887
Lands.....	108	247 959	142 400 300
Lots.....	76	599 928	238 922 039
Personal Property	11	808 187	20 730 779
Total.....	196	656 074	402 053 118

	COOK COUNTY.		
	1880		1887
Lands.....	4	722 722	18 667 202
Lots.....	55	315 340	191 496 506
Personal Property	4	118 692	10 439 522
Total.....	64	156 754	220 603 230

The amounts in Table X. include mortgages both for deferred payments and for loans. Mortgages for money loaned are not subject to deduction for debts. Other mortgages may be canceled in this way when being listed for taxation. It is not probable that all mortgages for other than money loaned were counter-balanced by debts of the holder but it is not impossible that it was done. It is best, then, to deduct all mortgages for deferred payments from the total amount of mortgages when seeking to obtain a sum to compare with the assessment.

The amounts of the mortgages for deferred payments as given in the Report of the Bureau of Labor Statistics include the interest on the mortgages contracted to be paid but unaccrued. In Table

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1. This method has been criticized by Dunn in an article in the Political Science Quarterly (Vol. 5. p. 73) entitled "The Mortgage Evil." The ground for the criticism is that it is assumed that the amount of mortgages recorded is equal in each year to the amount satisfied. Mr. Dunn feels that this is an unjustifiable assumption. As only roughly accurate statistics are necessary for the purpose here, it has been thought just to disregard the effect of this factor.

XI. the principal and the interest is separated and the amount of the principal of the mortgages for deferred payments is found. Under the assumption of the author of the report on mortgage indebtedness, it is deemed just to consider the unaccrued interest on the total amount of the mortgage indebtedness as amounting to one half the total interest contracted to be paid for the loan.

TABLE XI.
PRINCIPAL AND INTEREST, AVERAGE INTEREST RATE, AND PRINCIPAL OF MORTGAGES FOR DEFERRED PAYMENTS IN THE ENTIRE STATE AND IN COOK COUNTY FOR 1880 AND 1887.

ENTIRE STATE.

	1880			Principal	
	Prin. & Int.	Av. Int. Rt.			
Lands.....	21 110 983	.0760		20 338 134	
Lots.....	12 707 220	.0764		12 239 665	
Personal Property	2 578 754	.0796		2 480 144	
				35 057 943	
	1887				
Lands.....	25 196 326	.0690		24 453 673	
Lots.....	74 769 235	.0651		72 408 711	
Personal Property	4 210 618	.0783		4 051 848	
				100 914 232	

COOK COUNTY.

	1880			Principal	
	Prin. & Int.	Av. Int. Rt.			
Lands.....	1 025 888	.0688		991 771	
Lots.....	7 900 308	.0699		7 633 877	
Personal Property	1 183 108	.0799		1 137 602	
				9 763 250	
	1887				
Lands.....	3 850 294	.0626		3 733 440	
Lots.....	54 387 543	.0633		52 706 739	
Personal Property	2 140 008	.0789		2 059 680	
				58 499 859	

In Table XII. the mortgages for deferred payments are deducted from the total amount of mortgages and the result of the amount of mortgages not liable to deduction for debt is obtained.

TABLE XII.

MORTGAGES NOT SUBJECT TO DEDUCTION FOR DEBTS IN THE ENTIRE STATE AND
IN COOK COUNTY IN 1880 AND 1887.

ENTIRE STATE

	1880	1887
Total Mortgages.....	196 656 074	402 053 118
Mort.for Deferred Payments....	35 057 943	100 914 232
Mort.Not Subj.To Debt Deduct..	161 598 131	301 138 986

COOK COUNTY

Total Mortgages.....	64 156 754	220 603 230
Mort.for Deferred Payments....	9 763 250	58 499 857
Mort.Not Subj.To Debt Deduct..	54 393 504	162 103 373

This amount is, however, not even yet a fair one to compare with the assessed value of the credits of other than bank, banker, broker, etc. Not all of the mortgages recorded in this state are owned by persons living within the boundaries of the state, and those which are not owned by residents are not assessable in Illinois. It is true that the residents of Illinois also own mortgages in other states but the amount so owned is not obtainable and therefore cannot be used to counter-balance the amount of Illinois mortgages held outside of the state.

Table XIII. gives the total amount of mortgages in force in Illinois and in Cook County owned by non-residents of the state in the years 1880 and 1887.¹

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1. The average term of the mortgages of this class in 1880 is not given in the report. It is assumed for this purpose that it was the same in 1880 as in 1887.

TABLE XIII.

TOTAL AMOUNT OF ILLINOIS MORTGAGES OWNED BY NON-RESIDENTS OF ILLINOIS
IN 1880 AND 1887.

ENTIRE STATE.		
	1880	1887
Mortgages Executed to Non-Res.	6 123 007	9 497 812
Average Term Years.....	4.39+	4.39+
Total in Force.....	26 918 163	41 754 557
COOK COUNTY.		
Mort.Executed to Non-Residents	1 619 325	3 980 344
Average Term Years.....	4.39+	4.595
Total in Force.....	7 440 789	18 289 681

It would be correct to deduct the total amount of Illinois mortgages owned by non-residents from the amount of mortgages not subject to deduction for debts, as found in Table XII, for it is fair to suppose that as large a proportion of mortgages owned by persons outside of the state are for deferred payments as of those owned by the residents of the state. It is necessary then, to deduct but a part of the of the non-residents. ¹ Table XIV. gives the amounts of this part of the mortgages of non-residents and the result obtained by deducting this part from the total amounts of mortgages not subject to deduction for debts. This result, then, represents the amount of mortgages held by the residents of Illinois not subject to deduction for debts.

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1. Using the proportion that the total amount of mortgages is to the total amount of mortgages for deferred payments, as the total amount of mortgages executed to non-residents is to the amount of mortgages for deferred payments executed to non-residents, the following proportions and results are obtained:-

$$196\ 656\ 074:161\ 598\ 131::26\ 918\ 163:X$$

$$X=22\ 114\ 373$$

$$402\ 053\ 118:301\ 138\ 986::41\ 754\ 557:X$$

$$X=31\ 274\ 801$$

$$64\ 156\ 754:54\ 393\ 504::7\ 440\ 789:X \quad X=6\ 308\ 449$$

$$220\ 603\ 230:162\ 103\ 373::18\ 289\ 681:X \quad X=13\ 394\ 269$$

TABLE XIV.

AMOUNTS OF MORTGAGES NOT LIABLE TO DEDUCTION FOR DEBTS OWNED BY RESIDENTS AND BY NON-RESIDENTS OF ILLINOIS IN 1880 AND 1887.

ENTIRE STATE.		
	1880	1887
Mort. Not Subj. to Debt Deduct...	161 598 131	301 138 986
Am't Such Mort. Held by Non-Res.	22 114 373	31 274 301
Am't Such Mort. Held by Res.....	139 483 753	269 864 185

COOK COUNTY.		
	1880	1887
Mort. Not Subj. to Debt Deduct...	54 393 504	162 103 373
Am't Such Mort. Held by Non-Res.	6 308 449	13 394 269
Am't Such Mort. Held by Res.....	48 085 055	148 709 104

The amount as it stands now is subject to still another deduction, for it contains only the mortgages held by the classes termed "Other than Bank, Banker, Broker, etc." but also those owned by banks and other such companies whose credits are listed in a different form. Probably the most important of these companies and the only ones for which the data is obtainable, are the building and loan associations. ¹ Deducting these mortgages, then, as is done in Table XV, the result is obtained which represents, as accurately as possible, the mortgages which should have been listed in 1880 and 1887 under the head of "Credits of Other Than Bank, Banker, Broker, etc."

It should be remembered that these results do not represent all that should have been assessed in this class but that notes not recorded, accounts, as well as every other demand for a valuable thing, not canceled because of debts, should be included in the same sum. It should also be remembered that the sum now taken as represent-

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1. The amounts of the mortgages of building and loan associations for 1880 contain unaccrued interest. No rate being given, it is impossible to deduct the interest. The amount is so small, however, as to be almost negligible.

ing the amount of mortgages which should have been listed under this head excludes, first, mortgages recorded in other states but held by residents of this state and, second, all mortgages liable to deduction¹ for debt. No allowance is made in the amount for mortgages recorded in other states but owned by residents of Illinois or for credits liable to deduction for debts but not totally counter-balanced by them.

TABLE XV.

MORTGAGES OWNED BY BUILDING AND LOAN ASSOCIATIONS DEDUCTED FROM MORTGAGES HELD IN ILLINOIS NOT SUBJECT TO DEBT DEDUCTION. IN 1880 AND 1887.

ENTIRE STATE.		
	1880	1887
Mortgages Owned in Illinois		
Not Subj. to Debt Deduction.	139 483 758	269 864 185
Mortgages Owned by Building and Loan Associations.....	371 335	27 598 439
Total Amount of Mortgages which Should Have Been Listed....	139 112 423	242 265 746

COOK COUNTY.

Mort. Owned in Illinois Not Subject to Debt Deduction..	48 085 055	148 709 104
Mort. Owned by Building and Loan Associations.....	77 705	13 175 342
Total Amount of Mortgages which Should Have Been Listed....	48 007 350	135 533 762

Comparing, then, the amount of mortgages which should have been assessed in these years, with the amounts of credits of other than bank, banker, broker, etc., which were actually assessed, the results shown in Table XVI. are obtained. In 1880 there were nearly three times as many mortgages in the state liable to assessment as were reached by the assessor, granting that the credits assessed consisted only of mortgages. In 1887 there were twenty times as many mortgages

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1. The writer has been told by assessors that in actual practice, very little deduction is allowed and that it would even be fair, in their opinion, to disregard this element.

liable to assessment as were actually listed and assessed. In Cook County the effectiveness of the assessment appears to even worse advantage. Whereas, if the assessment was full and thorough, the mortgages would amount to be a fraction of the credits taxed, in fact, as the table shows, the amount which the assessor listed as credits is but one two hundred and fiftieth of the mortgages alone which should have been so listed and assessed. In 1887, the evasion was still worse. But \$117 170 worth of credits were assessed while \$135,533,762 worth of mortgages alone were lawfully taxable. To state it in another way, it may be said that approximately one mortgage out of every one thousand was taxed in Cook County in 1887.

TABLE XVI.

MORTGAGES LIABLE TO ASSESSMENT COMPARED WITH CREDITS OF OTHER THAN BANK, BANKER, BROKER, STOCK-JOBBER, ASSESSED IN ENTIRE STATE AND IN COOK COUNTY IN 1880 and 1887.

	Mortgages Liabile To Assessment	Credits Assessed (Other than bank, etc.)
Entire State		
1880.....	139 112 423	17 680 302
1887.....	242 265 746	12 160 825
Cook County		
1880.....	48 007 350	211 815
1887.....	135 533 762	117 170

These statistics and comparisons are taken from an investigation made twenty years ago. They show, though, how general the evasion was at that time. Just what the conditions are at present is a

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1. This is on the assumption that the mortgages recorded in Cook County are owned in Cook County. Many, of course, are owned by persons living elsewhere; just how many it is impossible to tell. As many, however, are probably held by residents of Cook County, recorded in other counties or States.

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question that cannot be answered with any accuracy. Considering for a moment the assessment returns, it is found that they have increased somewhat but they have not increased one hundred per cent since the time of the investigation of the Bureau of Labor Statistics. The return in 1880 was \$17 680 302, in 1887 was \$12 160 825, and in 1908 was \$21 418 528. No material seems to be procurable giving information as to how great the increase in the mortgage indebtedness has been in the state since the time of the report. An investigation has been made in JoDaviess county by Professor T.S. Adams which gives an estimate of the amount of the mortgages in force in that county and this may serve as a straw to show which way the wind blows. Professor Adams says:- "I estimate that, excluding loans from banks, Trust Companies, and other non-taxable mortgages, the mortgaged indebtedness on real estate of JoDaviess County has averaged about \$2 948 580 in the six and a half years under investigation. (Jan., 1900-June, 1906.)" The Bureau of Labor Statistics' Report in 1888, in its estimate, gives the amount of mortgages on this class of property in JoDaviess County in 1887, as \$1 205 242. A comparison of this estimate with that of Professor Adams, shows that the mortgage indebtedness in this county increased over two fold between 1887 and 1907. If this is true for the whole state it may be said that the law today is just about as effective as it was in 1887.

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1. It seems to be generally acknowledged that the great mass of taxable credits escape assessment. A.D. Mulliken, who acted as special attorney for the Champaign County Board of Review during the summer of 1908, estimates that about five per cent of the mortgages are reached by the assessors. Treasurer Scott, of Champaign County, thinks that this is a fair estimate.
2. Report of the Wisconsin Tax Commission. 1907. p. 339
3. No deduction is made from this amount for non-taxable mortgages.

Summary.

In summary, then, it may be said that:-

1. All claims or demands for anything of value, (except money on deposit), not counter-balanced by debts, which are owned by persons not included under the definition of "Bank, Banker, Broker, etc.", are liable to assessment and taxation under the head of "Credits of Other Than Bank, Banker, Broker, etc."

2. The amounts assessed under this head do not show a gradual, steady increase such as would be expected, but, on the contrary, fluctuate quite violently.

3. A comparison of the amounts listed under this head in various counties in the state reveals the fact that the assessment is far from just and equitable between the counties.

4. A comparison of the amounts assessed with the amounts of the mortgages liable to assessment, in 1880 and 1887, shows that the evasion of the tax was, at that time widespread and general.

Moneys of Other Than Bank, Banker, Broker, etc.

All persons not included within the legal definition of bank, banker, broker, etc., are required by the law to list whatever moneys they may have under the head of "Moneys of Other than Bank, Banker, Broker, etc.". It is reasonable to suppose that the great mass of money assessed is deposited in banks and it may, therefore, be said that this tax is a levy on bank credit in the hands of individuals.

Table XVII. gives the amounts of the moneys of this class as assessed for each year during the period under consideration in the entire state and in Cook County. Considering, first, the returns for the entire state, about the same general observations may be made as were made in the case of credits of other than bank, banker, broker, etc. The amount listed for taxation declines steadily from 1873 until the passage of the law of 1898 but since that date the amounts assessed have shown a slight increase. The assessed value of moneys listed in 1898 is but little in excess of the value listed in 1873 but it should be remembered that the figures for the later date are supposed to represent but one fifth of the fair cash value. The lowest amount listed was \$7 769 358 in 1894 and the highest was \$18 944 236 in 1907. In Cook County the high water mark was reached in 1899 when the assessed value of this class of property amounted to \$4 203 385. The assessment in 1908 in this county fell, however, to \$963 907. The low year in Cook County in regard to the amount assessed under this head was 1878 when but \$212 601 worth of moneys were listed by the assessor.

A comparison of the returns made by Cook County with the returns made by the rest of the state, as shown in Table XVIII, makes

TABLE XVII.

ANNUAL ASSESSED VALUE OF MONEYS OF OTHER THAN BANK, BANKER, BROKER,
STOCK-JOBBER, ETC. 1872-1909.

As Returned to the Auditor of Public Accounts.

	Entire State	Cook County
1873	16 734 886	920 242
1874	16 415 522	664 694
1875	15 248 399	294 712
1876	14 111 717	350 030
1877	12 629 085	303 339
1878	10 639 092	212 601
1879	10 310 559	705 391
1880	13 014 803	1 207 874
1881	13 830 281	2 220 972
1882	13 141 541	2 027 836
1883	12 255 057	1 818 818
1884	10 186 580	1 283 156
1885	9 345 880	1 164 552
1886	9 021 899	975 711
1887	9 044 891	1 221 353
1888	8 484 631	943 637
1889	9 516 138	1 221 899
1890	9 456 573	1 061 264
1891	9 267 494	997 682
1892	9 195 675	970 129
1893	9 950 825	1 346 164
1894	7 769 358	434 244
1895	9 176 947	1 459 384
1896	8 196 180	1 279 057
1897	8 633 129	1 093 315
1898	7 951 202	839 556
1899	17 742 210	4 203 358
1900	15 115 652	1 675 331
1901	16 398 755	2 041 967
1902	16 473 438	1 912 245
1903	17 148 064	1 855 244
1904	17 888 563	1 965 905
1905	18 435 506	1 757 465
1906	18 773 144	1 914 927
1907	18 944 236	1 761 304
1908	18 728 241	963 907

TABLE XVIII.

COMPARISON OF COOK COUNTY WITH THE REMAINDER OF THE STATE IN RESPECT TO POPULATION AND ASSESSED VALUE OF MONEYS OF OTHER THAN BANK, BANKER, BROKER, STOCK-JOBBER, ETC.

	POPULATION		
	STATE EXCEPT COOK	COOK COUNTY	RATIO
1870	2 189 925	349 966	6:1
1880	2 470 347	607 524	4:1
1890	2 634 359	1 191 992	2:1
1900	2 982 325	1 838 735	1.6:1
		ASSESSMENT	2.6:1
1873	15 814 644	920 242	16:1
1874	15 750 828	664 694	24:1
1875	14 953 687	294 712	51:1
1876	13 761 687	350 030	39:1
1877	12 325 746	303 339	41:1
1878	10 426 491	212 601	49:1
1879	9 605 168	705 391	14:1
1880	11 806 929	1 207 874	10:1
1881	11 609 309	2 220 972	5:1
1882	11 113 705	2 027 836	6:1
1883	10 436 239	1 818 818	6:1
1884	8 903 424	1 283 156	7:1
1885	8 181 328	1 164 552	7:1
1886	8 046 138	975 711	8:1
1887	7 823 538	1 221 353	6:1
1888	7 540 994	943 637	8:1
1889	8 294 239	1 221 899	7:1
1890	8 395 309	1 061 264	8:1
1891	8 269 812	997 682	8:1
1892	8 225 546	970 129	8:1
1893	8 604 661	1 346 164	7:1
1894	7 335 114	434 244	17:1
1895	7 717 563	1 459 384	5:1
1896	6 917 123	1 279 057	5:1
1897	7 539 814	1 093 315	7:1
1898	7 111 636	839 566	9:1
1899	13 538 825	4 203 385	3:1
1900	13 440 321	1 675 331	8:1
1901	14 356 788	2 041 967	7:1
1902	14 561 193	1 912 245	8:1
1903	15 292 820	1 855 244	8:1
1904	15 922 658	1 965 905	8:1
1905	16 678 041	1 757 465	10:1
1906	16 858 217	1 914 927	9:1
1907	17 282 932	1 761 304	10:1
1908	17 764 334	963 907	19:1
	412 206 851	47 069 302	9:1

it clear that in the case of this class of property also the distribution of the tax between Cook County and the remainder of the state is unjust. During the period under discussion Cook County contained approximately one fourth of the people of the state yet it contained, according to the assessed returns, but one tenth of the moneys of the state. In 1908 Cook County had about one third of the population of the state but its share of the assessment was but one twentieth of that of the entire state. For every dollar per unit of population taxed, then, in Cook County in 1908, ten dollars was taxed in the other counties of the state. Instances of even more unjust apportionment may be taken from the table. In 1878, for example, the state except Cook County listed \$10 426 491 in moneys of this class. Taking population as an indicator of the amount a county should pay it would seem that Cook County's share would be about one fourth of this amount or \$2 608 823. The amount actually listed in Cook County was, however, only \$212 601.

Comparing the assessed value of the moneys of other than bank, banker, broker, etc., in Cook County with the assessed value of the same class of property in the fifteen counties making the highest returns (See Table XIX.) in 1908, it is found that while Cook County listed but fifty two cents per person, Boone County listed twenty five dollars and seven cents per person. The average amount of money per person listed in the state outside of Cook County was five dollars and ninety six cents, approximately twelve times as much as was listed per person within Cook County.

This evidence shows rather conclusively that the assessment of the "Moneys of Other Than Bank, Banker, Broker, etc.;" is unjust between Cook County and the rest of the state.

TABLE XIX.

MONEYS OF OTHER THAN BANK, BANKER, BROKER, STOCK-JOBBER, ETC. PER UNIT OF POPULATION FOR COOK COUNTY AND THE FIFTEEN COUNTIES LISTING THE NEXT HIGHEST AMOUNTS IN 1908 AS SHOWN BY THE REPORTS OF AUDITOR OF PUBLIC ACCOUNTS.

	Moneys Listed	Population 1900	Credits Per Person
Cook.....	963 907	1 838 735	.52
Adams.....	687 572	67 058	10.25
St. Clair.....	655 863	86 685	7.56
Madison.....	524 360	64 694	8.11
Bureau.....	470 357	41 112	11.44
Peoria.....	455 855	88 608	5.14
McHenry.....	445 119	29 759	15.29
Stephenson.....	436 844	34 933	12.50
Kane.....	397 843	78 792	5.05
Boone.....	395 810	15 791	25.07
Knox.....	392 580	43 612	9.00
McLean.....	373 368	67 843	5.50
Winnebago.....	366 304	47 845	7.66
Will.....	355 041	74 764	4.75
LaSalle.....	352 146	87 776	4.01
DuPage.....	341 201	28 196	12.10
State Except Cook.....	17 764 334	2 982 715	5.96

The next point to be considered is that of how the amount of money listed in the state compares with the amount of money which ought to have been listed. Since the great mass of the money of the state is deposited in the banks, it seems that the amount listed for taxation as moneys should be approximately equal to the total amount of the individual deposits of the banks of the state.

In seeking information as to the amount of bank deposits of the state during the period it is found that the data is available for the national banks for the entire time,¹ and for the state banks since 1888.² No records are available showing the amount of the deposits of the private banks.

Table XX. gives the individual deposits of the national banks of the entire state, of Chicago, and of Cook County outside of Chicago from 1873 until 1909. The dates on which the figures for the entire state and for Chicago are taken, are close to the date of assessment. The figures given for Cook County outside of Chicago are taken from reports made later in the year in each case. The reason for this is that only on these dates do the reports of the Comptroller give the necessary detailed information. No information at all is given on this point in the report of the comptroller in 1905.

The state banks first began to report to the auditor in 1889. The three items, time deposits-savings, demand deposits-individual, and demand deposits-certificates, have been selected as representing most fairly the deposits which should have been returned to the assessor as money. Table XXI. gives the sum total of these items for each year since 1888 for Cook County and for the entire state. In

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1. Reports of the Comptroller of the Currency of the United States.
2. Reports of the Auditor of Public Accounts of Illinois.

TABLE XXI.

DEPOSITS IN STATE BANKS.

		Time Deposits-Savings.				Demand Deposits-Individual.				Demand Deposits-Certificates.			
		Entire State.				Cook County.							
1889	8/12	30	147	562	56	26	467	327	81				
1890	7/14	40	204	028	61	38	153	130	81				
1891	11/14	57	266	785	78								
1892	7/28	69	541	368	92	59	264	265	33				
1893	7/25	63	374	296	42	51	915	029	61				
1894	5/17	74	488	962	85	62	878	461	07				
1895	3/20	78	515	483	06	63	715	603	38				
1896	6/3	87	427	288	99	68	890	446	17				
1897	5/11	88	477	918	83	72	436	531	03				
1898	4/6	105	434	682	95	86	262	522	87				
1899	7/1	140	900	916	54	117	746	919	09				
1900	3/27	147	424	254	03	122	183	476	33				
1901	5/14	180	388	741	63	149	148	356	45				
1902	5/12	197	218	259	92	160	820	027	95				
1903	5/21	236	393	812	78	191	328	397	61				
1904	6/10	278	264	218	39	224	821	822	28				
1905	5/31	331	415	030	47	270	975	115	03				
1906	4/7	352	712	254	75	285	924	452	46				
1907	5/21	375	696	633	22	295	302	447	37				
1908	5/12	368	640	362	72	289	046	388	27				

making up the table the bank reports were selected which most nearly coincided in date with the assessment reports.¹

Until 1889, then the only data obtainable with which the assessment of moneys may be compared is the amount of the individual deposits of the national banks. Table XXII. makes this comparison.

Considering, first, the state as a whole, it is seen that, while an amount equal to about one half of the deposits of the national banks was assessed in 1873, this fraction grows steadily smaller until 1888 when the assessment amounted to but one tenth of the deposits. The ratio between the two amounts in Cook County, as shown in the second part of the table, reveals the fact that a much smaller fraction was assessed there than in the state as a whole. In 1873 the assessment was one twentieth of the deposits and in 1888, one fifty-second. The largest fraction of the deposits was listed in 1882 when one seventeenth of the amount was assessed. The smallest amount proportionally, was listed in 1875, when the amount assessed was but one sixty-third of the individual deposits in the national banks of the county.

After 1889 the amount of the deposits of both state and national banks are available for comparison with the assessed value of the money in the state as returned to the auditor. The relation between these two amounts for each of the past twenty years is shown in Table XXIII.² In the year 1889 the table shows that for every dol-

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1. Returns for Cook County in 1891 are not given in the bank reports in the library of the University of Illinois.

2. The amount of the deposits of the state banks in Cook County in 1901 is not accessible. In the table it is assumed that they were the same as the year before. In view of the fact that the amount of deposits for the whole state increased seventeen millions in this year, the assumption that the deposits in Cook County but remained stationary does not seem to be unfair.

TABLE XXII.

COMPARISON OF ASSESSED VALUE OF MONEYS OF OTHER THAN BANK, BANKER, BROKER, ETC., WITH INDIVIDUAL DEPOSITS OF NATIONAL BANKS.
1873-1888.

ENTIRE STATE.

	Assessed Value Of Moneys Of Other Than Bank, Etc.	Indiv. Deposits of National Banks.	
1873	16 734 886	33 871 788 95	1:2
1874	16 415 522	34 710 984 73	1:2
1875	15 248 399	37 335 893 85	1:2
1876	14 111 717	33 382 341 76	1:2
1877	12 629 085	33 207 862 34	1:3
1878	10 639 092	29 655 941 72	1:3
1879	10 310 559	31 280 054 29	1:3
1880	13 014 803	45 290 209 70	1:3
1881	13 830 281	59 239 161 77	1:4
1882	13 141 541	69 338 136 16	1:5
1883	12 255 057	73 314 877 76	1:6
1884	10 186 580	65 624 654 68	1:6
1885	9 345 880	64 974 789 35	1:7
1886	9 021 899	74 263 176 57	1:8
1887	9 044 891	84 939 329 25	1:9
1888	8 484 631	86 837 433 86	1:10

COOK COUNTY.

1873	920 242	18 715 692 66	1:20
1874	664 694	17 911 612 24	1:27
1875	294 712	18 190 277 37	1:63
1876	350 030	15 656 569 23	1:44
1877	303 339	16 058 243 32	1:53
1878	212 601	13 807 867 13	1:66
1879	705 391	17 705 917 22	1:25
1880	1 207 874	20 916 716 32	1:17
1881	2 220 972	28 081 461 81	1:13
1882	2 027 836	34 104 349 81	1:17
1883	1 818 818	40 076 520 64	1:22
1884	1 283 156	35 683 505 16	1:28
1885	1 164 552	36 895 936 67	1:32
1886	975 711	45 275 388 73	1:47
1887	1 221 353	51 632 293 75	1:42
1888	943 637	48 903 900 88	1:52

TABLE XIII.

COMPARISON OF ASSESSED VALUE OF MONEYS OF OTHER THAN BANK, BANKER, BROKER, ETC., WITH DEPOSITS OF STATE AND NATIONAL BANKS.
1889-1908.

		ENTIRE STATE.							
		Assessed Value		Deposits of					
		Of Moneys Of		State and					
		Other Than Bank, Etc.		National Banks.					
1889	9	516	138	124	374	251	02	1:13	
1890	9	456	573	142	140	085	75	1:15	
1891	9	267	494	174	118	197	55	1:19	
1892	9	195	675	203	871	992	41	1:22	
1893	9	950	825	191	041	772	49	1:19	
1894	7	769	358	193	964	276	18	1:25	
1895	9	176	947	201	392	368	23	1:22	
1896	8	196	180	203	737	856	97	1:22	
1897	8	633	129	200	163	357	06	1:23	
1898	7	951	202	242	048	067	72	1:31	
1899	17	742	210	296	785	238	84	1:17	
1900	15	115	652	317	169	860	74	1:21	
1901	16	398	755	384	658	926	80	1:24	
1902	16	473	438	432	974	839	48	1:26	
1903	17	148	064	473	542	782	80	1:28	
1904	17	888	563	519	943	194	19	1:29	
1905	18	435	506	603	081	049	30	1:33	
1906	18	773	144	623	789	412	93	1:33	
1907	18	944	236	670	862	703	73	1:35	
1908	18	728	241	674	353	841	47	1:31	
COOK COUNTY.									
1889	1	221	899	80	551	332	95	1:67	
1890	1	061	264	98	937	332	61	1:93	
1891		997	682	107	119	654	22	1:108	
1892		970	129	139	815	692	97	1:144	
1893	1	346	164	127	696	103	26	1:95	
1894		434	244	139	101	366	51	1:323	
1895	1	459	384	137	730	861	48	1:95	
1896	1	279	057	140	209	621	20	1:110	
1897	1	093	315	141	074	632	61	1:129	
1898		839	566	167	209	534	79	1:201	
1899	4	203	385	211	032	906	16	1:50	
1900	1	675	331	220	149	201	95	1:132	
1901	2	041	967	265	797	468	42	1:130	
1902	1	912	245	293	055	446	70	1:153	
1903	1	855	244	318	308	937	63	1:172	
1904	1	965	905	347	848	769	42	1:177	
1905	1	757	465	409	875	259	80	1:234	
1906	1	914	927	416	493	425	27	1:218	
1907	1	761	304	440	424	025	17	1:250	
1908		963	907	440	822	737	16	1:459	

lar reached by the assessor there were thirteen dollars on deposit in the state and national banks. In 1898 when about eight millions of dollars were assessed (\$7 951 202) there were approximately two hundred and forty millions on deposit (\$242 048 067 72).

In Cook County the evasion is even more general than in the state as a whole. An example of the evasion there is shown in 1894 when for each dollar of money of other than bank, banker, broker, etc., assessed there were three hundred and twenty three dollars on deposit in the state and national banks of the county. Taking the assessed value in 1908 as one fifth of the real value, it is found that, in this year, for every dollar taxed there were ninety two dollars deposited in the state and national banks of the county.

If there is a single item which certainly should be included in the amount of the assessment of the moneys of other than bank, banker, broker, etc., it is the amount of the savings deposits in the state banks. But, as is shown in Table XXIV. , the assessed value of the moneys of the state does not nearly equal the mere amount of the sav-
¹ings deposits in the state banks. In Cook County, as usual, are found some rather startling results. In 1894, for example, when the moneys assessed on the first of May amounted to but \$434 244, the savings deposits of the state banks of Cook County on the fifteenth of May, amounted to \$28 678 143 04. In 1908, \$963 907 was the assessed value of the moneys. This amount is supposed to be one fifth of the fair cash value of the moneys. This is supposed to be one fifth of the fair cash value of all the moneys of other than bank, banker, broker, etc., in the county. The banks, at this time, held as savings deposits alone \$ 147 403 902 07.

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1. The dates on which these figures are taken are the same as those in Table XXI.

TABLE XXIV.

COMPARISON OF ASSESSED VALUE OF MONEYS OF OTHER THAN BANK, BANKER, BROKER, ETC., WITH SAVINGS DEPOSITS IN STATE BANKS OF ILLINOIS.

		ENTIRE STATE.		
1889	9 516 138	10 398 043 31		
1890	9 456 573	13 523 723 95		
1891	9 267 494	18 953 510 56		
1892	9 195 675	21 852 906 50		
1893	9 950 825	21 415 996 02		
1894	7 769 358	22 205 127 26		
1895	9 176 947	25 973 153 69		
1896	8 196 180	31 316 405 40		
1897	8 633 129	28 193 621 64		
1898	7 951 202	35 128 016 21		
1899	17 742 210	50 898 654 69		
1900	15 115 652	60 782 501 74		
1901	16 398 755	77 166 359 59		
1902	16 473 438	95 155 260 81		
1903	17 148 064	119 721 738 72		
1904	17 888 563	141 403 282 60		
1905	18 435 506	163 607 872 01		
1906	18 773 144	175 951 423 83		
1907	18 944 236	191 031 941 80		
1908	18 728 241	171 412 856 96		
		COOK COUNTY.		
1889	1 221 899	9 380 927 42		
1890	1 061 264	12 413 194 31		
1891	997 682			
1892	970 129	19 989 554 27		
1893	1 346 164	17 553 678 35		
1894	434 244	28 678 143 04		
1895	1 459 384	20 387 027 84		
1896	1 279 057	25 173 921 44		
1897	1 093 315	22 293 299 47		
1898	839 566	28 284 838 08		
1899	4 203 385	41 731 272 62		
1900	1 675 331	51 977 298 43		
1901	2 041 967	65 939 505 76		
1902	1 912 245	82 075 125 19		
1903	1 855 244	102 420 528 19		
1904	1 965 905	119 851 962 92		
1905	1 757 465	139 418 621 08		
1906	1 914 927	150 121 496 01		
1907	1 761 304	161 340 563 22		
1908	963 907	147 403 902 07		

NOTE. Column one is composed of the dates, column two, the assessed value of the moneys of other than bank, banker, broker, etc., and column three, the amounts of the savings deposits of the state banks.

That the assessment of this class of property is not full and just is evident without further discussion. As was found in the case of credits of other than bank, banker, broker, etc., it is also seen here, in the case of moneys of other than bank, banker, broker, etc., that the assessment is neither just between counties or full and fair as compared with the property which should have been reached for taxation.

It must be admitted, then, that the tax on mortgages and credits in Illinois has not been a success. Mortgages and credits are not, as a rule, reached for taxation at all. In so far as they are reached, the tax is inequitable and is unjustly distributed between the different parts of the state. The administration of the law is a failure not because of a dearth of ordinary provisions for enforcement or because of lack of support given by the courts. The problems involved in the listing of credits are simply too many and too great to be solved by any system which attempts to disregard the fact that such objects are not property in the sense that tangible objects are property.

CHAPTER V.

ATTEMPTS TO SOLVE THE PROBLEM OF THE TAXATION OF MORTGAGES AND CREDITS IN OTHER STATES.

The problem of the taxation of mortgages is not a problem peculiar to the state of Illinois. The question as to how this class of property is to be taxed has been a live one in some states for a number of years. Many different plans have been proposed. Some of these plans have been adopted and tested. They vary from the most radical measures attempting to list credits as other property and to tax them at the full rate, to measures entirely exempting mortgages from taxation. It is not the purpose of this chapter to discuss all the legislation on this question in other states than Illinois but simply to indicate some of the proposals which have been made and some of the typical plans which have been adopted by the other states in their efforts to solve the problem.

Attempts to Tax Credits at Full Rates.

Some of the states which have taken the same general attitude as Illinois, viz., that credits are property as tangible things are property, have made more vigorous efforts to list their credits for taxation than Illinois has done. They have lost faith in the method of allowing the individual full freedom in the matter of self assessment and have done more toward seeing that the list returned by the property owner is a fair and full list of the credits owned than simply to require that the return be sworn to.

The Tax Inquisitor Method.

One of the methods which has been tried is a scheme which is not far from being identical with the old custom of farming out

the taxes. It is the method under which the task of securing the listing of the personal property escaping the general assessment is turned over to outside parties with the arrangement that they are to receive a certain percentage of the taxes collected on all the property discovered by them. This plan was used in Ohio until recently,¹ and is still in force in Indiana.² It is generally known as the Tax-Ferret

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1. In some parts of Ohio the system seems to be still in force under a different form. The following is clipped from The Columbus Dispatch.

"Cleveland, Ohio, Dec. 2. (1908). - A complete list of the Standard Oil Company's stock holders of the United States, now in the hands of Tax Inquisitor Guy Warson and Attorneys Klein and Harris, will be used in a general fight to obtain the payment of concealed taxes all over the country. This information was given out today by the three men named, following the payment of \$50 433 in fees by Cuyahoga county officials to Warson for the collection of \$250 000 back taxes on Standard Oil stock in this jurisdiction."

Mr. Warson bears the official title of assistant prosecuting attorney

and was hired by the county commissioners to do the tax inquisitorial work. This practice is now being attacked in the Ohio courts.

2. The inquisitorial work for the county in which Indianapolis is situated was given, in 1907, to a W. F. Charters on a bid of twenty five per cent of the taxes recovered. In announcing the letting of the contract, the Indianapolis News on December 18, 1907, wrote as follows:-

"Mr. Charters has held the contract for reporting sequestered or omitted taxes for several years, and the work has been very profitable to him, as he has always drawn twenty five per cent.

He has already drawn this year as his personal share of the omitted taxes recovered, \$13 892.42 from the county, and he is ready to draw \$769.38 in addition this month. Last year Mr. Charters' profits were \$19 085.45. In 1906 the tax ferrets share was \$29 371.94 and in 1905, it was \$25,851.11.

December 31, 1907, a final payment was made to Mr. Charters of \$1 512.64. An interesting fact in this connection was that there was not enough funds in the county treasury to make the entire settlement with Mr. Charters at the close of the year, and that there was an overdraft of the county funds to the amount of \$1 205.95.

The City Council has allowed \$25 000 for the employing of tax ferrets during 1909 with the understanding that none of the information concerning sequestered taxes shall be obtained from the Probate Court, as the county assessor is supposed to have access to the Probate Court Records. The contract made with Mr. Charters for next year provides that he shall not draw on the Probate Court for his information."

or Tax-Inquisitor method. The scheme is not unknown in Illinois but it does not seem to have been extensively used.¹

The objections to this method are many and varied. Beside the fundamental objection that the tax itself on this class of property is inherently wrong, the whole group of objections which follow in the wake of turning an essentially public function over into the hands of private individuals is found. Whenever such business is given to private persons the main end in view is apt to shift. The aim of the individual is not primarily to secure revenue for the government and to give justice between individuals. The main aim is naturally the private gain of the person contracting to secure the listing of the credits. Only those cases, then are likely to be pushed which promise profit to the tax ferret.

There is also a great temptation to corruption.¹ It is often a great deal less expensive to bribe the inquisitor than to pay the taxes on the property about which he may have information. As Judge Evans points out, it may be to the advantage of both the inquisitor and the property holder to compromise the matter. If this is done it is not a long step to outright blackmail. Even as it is, the officer who is supposed to enforce the law becomes a party to its evasion.

The method is also a very expensive one. The usual rate given the inquisitor is twenty five per cent of the taxes collected on ommitted property listed through his efforts. In Ohio the statutory rate was twenty per cent. During the years 1893-1903 in Ohio \$9 955 071.24 of ommitted taxes was collected through the efforts of the

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1. In the decision of the case of Stevens v. Henry County, 218 Ill. 468, the court held that the power to employ tax ferrets to look up ommitted property did not lie with the county because the power of assessing ommitted property was given by the law of 1898 to the board of review.

tax ferrets but the fees paid amounted to \$1 520 518.71.

The plan of securing the assessment of credits by the aid of tax-inquisitors violates almost every law of taxation. The plan as it works out is unequal and therefore unjust; in the second place, it is expensive; and, in the third place, it involves a great temptation to fraud. It is commonly referred to as an example of the extreme lengths to which a government may go in attempting to enforce a naturally unenforceable law.

The Plan of Interchanging Mortgage Lists Between Counties.

Another product of the attempts to tax credits as other property is the plan of interchanging lists of mortgages.

Mortgages, as a rule, must be recorded in the county where the property lies by which they are secured. Many of the mortgages recorded in one county are held by residents of other counties. On the other hand many mortgages recorded in other counties are owned by the residents of the first counties. In Michigan it was felt that an arrangement by which an interchange of information as to the mortgages recorded could be made between the various counties, would be an effective means of securing the listing of many mortgages which escaped assessment. Accordingly the plan was tried there of requiring each county recorder to furnish the officials with a list of the mortgages recorded in their county but executed to the residents of the other counties.

In order to prevent the shifting of the tax it was provided that if the mortgagor paid the tax on both the land and the mortgage, the receipt for the mortgage tax could be presented to the mortgagee

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1. Report of the Board of Tax Commissioners of Michigan. 1900. p 7 et al. Adams: Public Finance: p 442.

in lieu of interest on the debt.

This plan proved to be a fairly efficient means of securing the enforcement of the tax on mortgages. Many untaxed instruments were disclosed. The people of Michigan found, however, that the attempt at enforcement involved many evils. In the first place, according to Professor H.C. Adams, the rate of interest on this class of property increased one per cent.¹ Next, the mortgage contract was so revised as to deny the borrower the right to present tax receipts in part payment of interest dues. Lastly, mortgages on Michigan farms were exchanged as rapidly as possible for mortgages on lands in other states.

These evils seem to have been serious enough to counter-balance the benefits of the law for the section providing for this plan is no longer operative in that state.²

Inter-state Bureau.

Professor T.S. Adams has suggested that an inter-state intelligence bureau be established as a means for securing a full assessment by eliminating to some degree the evasion which arises from the fact that the tax system is administered by the various states rather than by the central government.³ Some such a bureau might be used to very good advantage as a means of securing an inter-change of mortgage lists between the states somewhat after the fashion of the Michigan law just discussed. The fact, however, that all the states do not have the same laws in regard to the taxation of credits would

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1. Adams: Public Finance. p. 442.

2. In a letter to the writer, Frederick C. Martindale, the Secretary of State of Michigan, says:—"Section 5 of Act 262 of 1887, providing for the inter-change of list of mortgages filed by registers of deeds is inoperative in the state."

3. T.S. Adams: Taxation in Maryland. Johns Hopkins Studies. 18: p 74.

work to the disadvantage of the scheme. The adoption of such a plan might lead to a state of affairs where the business of loaning on mortgages would be transacted by persons living in the states which exempt mortgages from taxation in much the same manner as parties seeking to incorporate, at the present time, flock to the states offering them the most liberal terms.

The Stamp Method.

Still another devise to secure the listing of credits has been proposed. No record at all is ordinarily required of some classes of credits such as notes and judgements and this plan seeks to unearth these instruments. The proposal is that it be required that all credits bear the stamp of the county assessor or of some other county official before they may be considered legal and collectible. This is perhaps the only way in which it is possible to reach this class of credits. Such a system is in force in Indiana at the present time and it has been proposed in various other states. An attempt was made in 1909 to secure the enactment of a law of this sort in Ohio.

Summary.

All of these plans are attempts to answer the question, Can mortgages and credits be reached for taxation? It is evident that more credits can be reached for taxation by the use of these methods than can be reached without them. The Ohio tax-ferret law succeeded in the listing of many credits which had escaped the assessor. The Michigan plan of the interchange of mortgage lists unearthed many untaxed mortgages. The Indiana law requiring credits to be stamped is doubtless of value in securing the assessment of notes which would otherwise escape. Michigan and Ohio, however, have decided that this ad-

dition to the tax returns is bought at too high a price. The general movement, indeed, among the states which are active in their attempts to solve the taxation problem, is in an entirely different direction. The conviction seems to be gaining ground that it is not desirable to tax such property, at least not to tax it in the same manner and at the same rates as other property. and it has come about that, in a number of states, mortgages are either exempted entirely from taxation or are taxed at a less rate and in a different manner than tangible property.

Attempts to Tax Mortgages at Less Than Full Rates.

Plans to tax mortgages at full rates are of two kinds. The first attempts to tax them as other property but at a lower rate than is charged in general. The second plan lays the tax in the form of a fee to be paid at the time the instrument is recorded.

Low Flat Rate.

In 1896 Maryland passed a law which provided that intangible property should be listed at its actual market value but in fixing the rate which should be levied it was decided that it should consist of the regular state rate plus thirty mills which last item was to be charged in lieu of all local and municipal taxes. In fact this meant that the rate on credits was to be approximately one half of that imposed on other property.

Under this law the assessment of credits increased, according to Professor J.H. Hollander, from \$6 000 000 before 1896, to \$146 688 857 in 1908. The evasion is, however, quite general even yet, and it is thought that much more of this sort of property could be listed

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Pennsylvania, also, lays a lighter tax on personal property¹ than on real estate.

There is no particular difference between this plan and the theory of the general property tax. The lower rate is granted simply because it is believed that more revenue can be obtained by so doing. Considering the matter from the practical standpoint it must be admitted that the plan has been fairly successful in attaining its end. More revenue has undoubtedly been secured to the state than would have been secured under an attempt to tax credits at the full rates. Professor Hollander, in speaking of this phase of the case, says:

"Considered as nothing more than a piece of fiscal opportunism, the Maryland device can properly engage the attention of those similarly circumstanced communities which are convinced of the unwisdom of further blunderbuss attempts to assess intangible wealth for full property taxation and are not prepared to go to the other extreme of complete exemption."²

Mortgage Recording Tax.

The system by which the tax on mortgages is laid in the form of a fee to be paid at the time the mortgage is recorded, is a step away from the conception of the general property tax. In so far as the sum collected from each mortgage varies with the amount of the loan secured by the mortgage, the principle is that of the general property tax. But there is also another element present in this tax. In the first place it is conceived to be in theory not so much a contribution according to ability to pay as a form of remuneration for the special services rendered by the state in the case of mort-

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1. Commons: Taxation in Chicago and Philadelphia. Jour. Pol. Ec: 3:434
2. Hollander: Taxation of Intangible Wealth in Maryland. Quart. Jour. Ec. 22:196.

¹
gages. In the next place the recording tax is usually not an annual levy but is a fee which is paid but once.

This system has the necessary qualifications of a good com-
promise measure and undoubtedly will prove popular in many states.²

The mortgage recording tax was first tried in New York.³ As early as 1870 the question of mortgage taxation was one which was up for serious discussion, the tax commission in that year recommending that mortgages be exempted from taxation.⁴ In 1893 the commission recommended a state tax on mortgages, pointing out that such a tax even at a very low rate would be a good measure from a revenue stand-
point.⁵ After years of discussion, the legislature, on June 3, 1905, passed a law providing for a tax of one half of one per cent on all mort-
gage indebtedness as it should stand on the first of every July.⁶ The revenue resulting from this tax was to be divided equally between

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1. Pierce: Taxation of Moneys and Credits. First National Conference. p. 348-9

2. Seligman: Recent Reports on Taxation. Pol. Sc. Quart. 22:301.

"It is to be expected that the recording mortgage tax, which has been unusually successful as a revenue producer during the short period of its existence in New York, will gradually find its way to the various states of the union and thus put to rest a troublesome agitation throughout the country."

3. A sort of recording tax was put in force in Connecticut in 1889.

"In 1889 the legislature passed a law by which the owners of notes and bonds, who would register them with the state treasurer and pay in advance a tax of one half of one per cent per annum for a period of five years, should be exempt from all further state or local taxation on the same."

In 1899 the rate was made two fifths of one per cent.
Report of Board of State Tax Commissioners of Michigan. 1900. p. 18.

4. Chapman: State Tax Commissions in the United States. Johns Hopkins Studies. 15:461.

5. Seligman: Essays on Taxation. p. 413:414.

6. Fetter: Changes in the Tax Laws of New York State in 1905. Quarterly Journal of Economics. 20:15.

the state and the local governments. An amendment to this act in 1906 made the levy purely a recording tax, the law providing that the fee of one half of one per cent should be paid but once and at the time of recording.¹ Public bonds, mortgages given to public, charitable, religious, and educational corporations and to building and loan associations on residence property to the amount of three thousand dollars are exempted from paying the tax.

This tax has been a success as a producer of revenue. Between four and five millions of dollars is the annual yield to the government from this source.²

The New York law of 1906, changed in no essential particular,³ was passed by the Minnesota legislature in April 1907. The operation of the law in this state seems to have been very satisfactory. Considerable revenue has been secured and the interest rates, it is claimed, have fallen by from one half to two per cent. The system is simple and is easy to enforce. It is regarded by some, however, as merely a stepping stone to total exemption of mortgages. As a compromise measure it is satisfactory to the progressives who see in it a means of educating the people to the view that the only fair solution of the problem lies in the exemption of such property from all taxes.⁴

Some such a recording system is also in force in Alabama.

The principal objection made to this plan is that it draws no distinction between the long and the short term mortgage. The very fact that this objection is made shows that the tax is a confusion of the fee idea with the theory of the general property tax. To meet

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1. Fetter: Change in Mortgage Taxation in New York in 1906. Quart. Jour. Economics. 20:613.
2. Seligman: Reports on State and Local Taxation: Pol. Sc. Quart. v. 22:311.
3. Pierce: Taxation of Moneys and Credits: 1st Nat'l Conference. p. 346.
4. Ibid. Page 348.

this objection it has been suggested that an allowance be made in the fee for the difference in the time the mortgages are to run; for instance, let one tenth of one per cent be charged on mortgages which are to run three years or less and twice that amount on long time mortgages.

Exemption of Mortgages From Taxation.

The third general attitude which may be assumed toward the problem of the taxation of mortgages and credits is that they are not, properly, objects of taxation at all and that they should be entirely exempt from taxation.

It is well to recall here the distinction between the mortgage itself and the property by which the loan is secured. No proposal has been considered which has for its object the exemption of both the loan and the evidence of the loan. Some effort has been made to relieve one or the other of these objects from the tax but mortgage exemption is not understood to mean the exemption of both the instrument and the property which the instrument represents.

The California constitution of 1879 provided that the holder of the mortgage should be taxed on the instrument but that the land which secured the mortgage should not be taxed on its full value but rather on its full value minus the amount of the mortgage.¹ It was further provided that no contracts whereby the borrower agreed to assume the tax should be considered valid.

Massachusetts went at the problem in a little different way. There it was provided, in 1881, that the tax should be levied on the land whether mortgaged or not. Either the mortgagor or mortgagee

may report the mortgage. If the instrument is reported by either the tax is paid by the holder of the mortgage. Agreements by which the borrower pays the tax are not prohibited in this state and it is the custom to include a clause in the mortgage providing that the mortgagor assume all responsibility for the payment of the taxes. Thus it comes about that the borrower is taxed on the loan.

Since 1902, mortgages have paid no taxes in Wisconsin and a system very similar to that of Massachusetts is in force there. The tax on mortgages has also been abolished in Delaware, Utah, Oregon, and Washington. Delaware and Washington seem to be the only states which exempt all credits, secured and unsecured. This is a side of the subject which has received little attention. The taxation of unsecured credits, however, has no more justification than a tax on secured credits.

The California method would seem to be, on the face of it, the better plan, for it is a distinct attempt to tax the holder of the mortgage on that part of the property which he really owns. In so far as this attempt is unsuccessful or, stated differently, in so far as the lender is successful in shifting the tax to the borrower, the tax is, as Professor Seligman points out, illogical and unjust.

It is unjust, however, only in so far as the tax on secured credits is heavy in comparison with the tax on unsecured credits. It may be said that unsecured credits are seldom reached for taxation at all. If all credits, secured and unsecured, are exempted from taxation and all the property which they represent is taxed, all capital

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1. Report of Commission on Taxation. Mass. 1897. p. 7.
2. Report of Wisconsin Tax Commission. 1907.
3. Pierce: Taxation of Moneys and Credits. 1st Nat'l Conf. p. 348.
4. Coray: Utah Mortgage Taxation. 1st Nat'l Conf. p. 183.
5. Seligman: Essays on Taxation. p. 410.
6. Seligman: Pol. Sc. Quart. 22: 309.
7. Seligman: Essays on Taxation. p. 101-107.

available for loans is under the same handicap but this handicap is but its fair share of the burden. The capital loaned will be taxed but will be taxed only once. This tax is a charge which the capitalist must consider in loaning his capital. The tax may be paid by either the lender or borrower but since this charge must be distributed between the lender and the borrower in each particular case there is no injustice or double taxation. Taking the standpoint of a person borrowing money to invest in an enterprise, it is seen that he must consider in his calculations the fact that the property involved in the venture is liable to taxation. This being of the nature of a fixed charge which must be met by all persons taking up such an enterprise, will have the effect of restricting, to a certain extent the number of enterprises which will be undertaken. But this charge must be met by all capital equally. As it is at present in most states, one part of capital is at a disadvantage as compared with other capital. Those loans which are secured pay a disproportionate share of the tax. But if all credits are exempted and if the actual property loaned is fairly assessed, the system of total exemption of credits is theoretically logical and fair.

CHAPTER VI.
SUMMARY AND CONCLUSION.

In the course of this paper it has been seen that the taxation of mortgages and credits presents difficulties which are not presented in the taxation of tangible property. Illinois, in trying to overcome these difficulties has attempted much but has accomplished little. Having defined credits very broadly and having provided what seemed to be an effective code of laws, the state has not succeeded in securing a full and just assessment of this class of property. It must be concluded, then, that the law laying a tax on mortgages and credits in Illinois has not been a success. This has been tacitly admitted by the legislature in several cases where they have expressed a willingness to pass unjust laws because of lack of confidence in the ability of the assessors to enforce just ones. The law for the offsetting of debts against credits is a case in point.

There has been a trace in the legislation of the growth of a conviction that the fundamental thesis of the theory of the tax is wrong. There seems to be a growing tendency to make a distinction between credits and other kinds of property. The attempts to exempt the notes and stock of building and loan associations are examples of this tendency.

In considering what changes Illinois should make in the law and what system it would be well to adopt, keeping in mind the experience of the other states, one may first eliminate all schemes which attempt to tax credits at full rates for all of these have failed to a greater or less degree when put to the test. The taxation of credits at a low flat rate has nothing except expediency as its

justification. The recording tax is based on better theory than these plans and has proved very satisfactory in the states where it has been in use. There seems to be no essential difference between conditions in Illinois and in New York which would tend to make a tax of this sort any less successful in this state than there. A point in favor of this plan is that its adoption does not involve a sacrifice of revenue. Table XXV. compares the amount received from the tax on all credits in 1880 and in 1887 with the amount which would have been received if the tax had been laid as a recording fee on mortgages of one half of one per cent. It will be seen that while the income which would have come from the fees on mortgages recorded was less in 1880 than the sum actually received under the general property form of taxation, yet in 1887 the conditions were reversed and more revenue would have been received under a recording tax. Under this fee system, moreover, the distribution of the tax between the counties would have been more just. If there had been a recording tax in force Cook County would have paid a larger share of the state tax. Provided that the tax receipts had been equally between the local and state governments, as is done in New York, Cook County would have received in 1880 over three times as much revenue to apply on local expenses as was actually received from this class of property; in 1887 the fees would have amounted to about twenty times as much as the tax received. It is probable, then, that the change could be made from the general property tax to the mortgage recording tax without any great loss in revenue and with the result that the tax would be more just¹ between the counties.

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1. In order to find the amount of the equalized assessment of the credits of other than bank, banker, broker, etc. as used in Table

TABLE XXV.

REVENUE RECEIVED FROM THE TAX ON MORTGAGES AND CREDITS IN ILLINOIS
 IN 1880 AND 1887 COMPARED WITH THE AMOUNTS WHICH WOULD
 HAVE BEEN RECEIVED FROM A RECORDING TAX ON
 MORTGAGES IN THOSE YEARS.

	1880	1887
Entire State		
Total tax listed on Tax Books.....	24 533 327	30 978 342
Tax from Credits of Other Than Bank....	547 829	501 797
Amount of Mortgages Recorded.....	63 055 828	117 152 859
Amount Which Would Have Resulted From a Recording Tax of 1/2 of 1%.	315 279	585 764
Cook County.		
Total Tax Listed on Tax Books.....	8 012 010	11 443 692
Tax From Credits of Other Than Bank....	13 896	8 247
Amount of Mortgages Recorded.....	19 509 948	62 253 920
Amount Which Would Have Resulted From a Recording Tax of 1/2 of 1%.	97 550	311 270

If the recording tax is adopted the problem of the taxation of the other varieties of credits remains still unsolved. Why mort-

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XXV. it is necessary, in the case of the amounts for the entire state, to use the proportion that the total assessment of personal is to the total equalized assessment of personal property as the total assessment of credits is to the total equalized assessment of credits. The following proportions and results are obtained:-

165 091 710:163 667 534::17 680 302:X

X 17 564 661

148 246 088:149 291 581::12 160 825:X

X 12 921 136

In order to ascertain the amount of the equalized assessment of credits in Cook County one has to but multiply the assessment of credits by the per cent added by the board of equalization and add the amount to the multiplicand. This per cent was, for Cook County, 22 in 1880 and 29 in 1887.

In order to obtain the actual tax recieved from mortgages and credits it was necessary to make use of the following proportion:-The total equalized assessment is to the equalized assessment of credits as the total tax is to the tax from credits. The following are the proportions and the results obtained:

Entire State.

1880

786 616 394:17 564 661::24 533 327:X

X 547 829

1887

797 752 888:12 921 136::30 978 342:X

X 501 797

Cook County

1880

148 982 393:258 414::8 012 010:X

X 13 896

1887

209 696 157:151 149::11 443 692:X

X 8 247

gages should pay but a small fee and other credits be taxed at the full rates is a question that is not easy to answer. As unsecured notes and accounts are not registered it is impossible to impose a fee.

Moreover when the recording tax is adopted the principle of the general property tax is abandoned in that it is recognized that the evidence of money loaned is not property in the generally accepted meaning of the term. It seems that the logical step would be to cease to consider mere claims for property as property itself and to entirely exempt credits from taxation under the old form of the general property tax.

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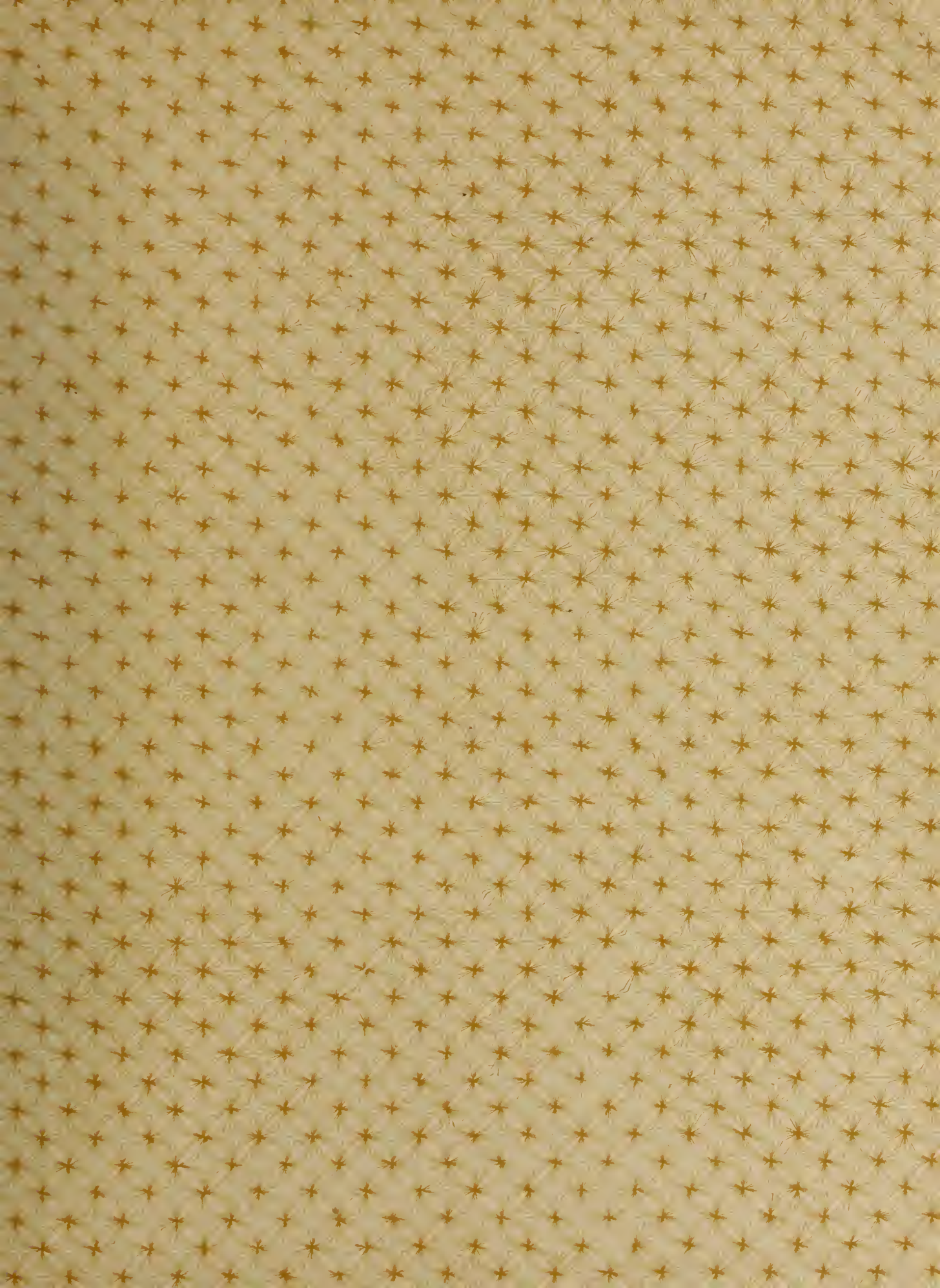
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