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TEXAS AGRICULTURAL EXPERIMENT STATION

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COLLEGE STATION, BRAZOS COUNTY, TEXAS

BULLETIN NO. 458 SEPTEMBER, 1932

DIVISION OF FARM AND RANCH ECONOMICS

Inequalities in Taxation of Farm Lands and City Property Due to Scope and Method of Assessment

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**In cooperation with U. S. Department of Agriculture.
†As of September 1, 1932.

An analysis of our assessment system reveals two outstanding weaknesses; namely, the failure to tax intangible personal property, and the failure to assess properties at uniform and comparable values.

According to the State Comptroller's Reports for the past eleven years, 1921-31, the assessed value of intangible property has averaged only slightly more than 2 per cent of the total assessed value of all property. Deposits of state and national banks have averaged $980,725,000 a year for the period 1921-29, whereas the amount of money on hand or deposit assessed for taxes for the same period has averaged only 2.7 per cent of this amount. A study of the probate records of Dallas, McLennan, and Brazos Counties for the ten-year period 1922 to 1931 shows that of all property probated in the three counties, real estate constituted 48.6 per cent, chattels 2.4 per cent, and intangible property 49 per cent. The tax rolls for these same counties for the year 1931 showed that of the total assessed property valuation, real estate comprised 70.8 per cent, chattels 25.8 per cent, and intangibles 3.3 per cent.

Authentic reports dealing with the sources of taxes and the sources of net income of individuals reveal the situation in which property yielding only one-fifth to one-fourth of the net income of the entire population of the state is the source of three-fourths of the direct taxes of the state and local governments. Gross inequalities were revealed in the assessment of individual properties. The more significant of these were: failure to assess property at full value, wide difference in assessment levels from county to county, extreme variation in the percentage of assessed value to sales price between individual properties, and the tendency to tax small farms and small city properties at a higher rate than large farms and large city properties. For example, in the case of 917 farms, 75 per cent were assessed at 11 to 50 per cent of their bona-fide sales price; the average percentage of assessed value to sales price in each of eight counties studied ranged from 15.7 per cent to 46.8 per cent; the percentage of assessment to sales price on 177 farms sold in 1929 in a single county varied from 15 per cent to 118 per cent; and farms selling for an average of $9,000 to $10,000 were assessed at 20 per cent and less of their sales price, whereas farms selling for an average of $2,000 to $3,000 were assessed at 50 to 70 per cent of their sales price.

The gross inequalities in taxation revealed in this study suggest the need for drastic changes, not only in our methods of assessment but also in the fundamental principles of our tax system. Among the more important changes possible are: broadening of the base of our tax structure so as to include a personal income tax to be substituted for taxes on intangible personal property, and reduction of the general property tax by the amount of revenue derived therefrom; selection of county assessors on the basis of competitive examinations under Civil Service rules; provision for central control and supervision of assessment by a state tax commissioner or commission; and requiring that much greater emphasis be placed on the technique of assessing individual properties.

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BULLETIN NO. 458 SEPTEMBER, 1932

INEQUALITIES IN TAXATION OF FARM LANDS AND CITY PROPERTY DUE TO SCOPE AND METHOD OF ASSESSMENT

L. P. Gabbard

An analysis of the tax situation of Texas farm owners and real estate owners in general requires a careful study and comprehesive knowledge of the general property tax. Farm owners especially are affected by the operation of a tax system in which general property, and particularly real estate plays such a major role because by far the greater part of their property holdings is composed of real estate and chattels—the more tangible forms of property. This places the farm owner and the real estate owner in general, in a vulnerable position with regard to inequalities and maladjustments in taxation.

General property forms not only an important source of state revenues but by far the most important source of local revenues. According to the report of the Texas Tax Survey Committee, published in 1929, 90 to 95 per cent of local taxes is derived from general property. The use of the general property tax in Texas antedates that of Statehood. Thus the weight of tradition and experience is decidedly in favor of such a tax. It is about the only direct tax a great many people have ever paid or known. This is especially true for owners of farm property and owners of real estate in general.

As a rule, critics have been extremely severe in their condemnation of inequalities which characterize the general property tax. Despite these attacks, however, the general property tax continues to be used throughout the country. Furthermore, there is little apparent tendency for this form of taxation to become less popular or less used, especially as a source of local revenues. Undoubtedly the general property tax will continue to constitute the main source of support for local governmental agencies for many years to come. This being the case, the most constructive course of action open is to correct, as far as possible, inherent weaknesses of the general property tax with the view of reducing existing inequalities to a minimum. This study, therefore, is confined to a consideration of inequalities in taxation due primarily to the operation of our assessment system.

OBJECT OF STUDY

The object of this study is to examine carefully and critically the extent to which the requirements of assessment provided by law are established in practical administration. The central theme is that of **tax equalization.** The study raises and endeavors to answer such important questions as: To what extent is taxable property assessed? To what extent are the assessed values of properties comparable, both of the same and different kinds in the same and in different governmental units? What is the effect of partial property assessments and inequalities of assessed values? What remedial measures should be applied?

SOURCE AND NATURE OF DATA

In the preparation of this bulletin use has been made of secondary data in the form of various official reports and statistical studies, and of primary data secured from both public and private sources. Such data as bona fide sales of both farm and city real estate, assessed values, and total real estate taxes paid were secured for periods ranging from 3 to 21 years in each of eight counties selected as representative of the more important agricultural areas of the state. Care was taken in recording sales to eliminate what appeared to be forced and speculative sales. A great many sales of real estate recorded in the deed records could not be used because the full consideration of the transaction was not given. In every county a local citizen familiar with the records was employed to assist in securing data. Also in matters of doubt, county officials were consulted. An effort was made to secure a random sample of 50 to 75 sales per year in each county on each of the two types of property—farm lands and city property. In addition to sales data, information was secured from owners of rented farms (third-and-fourth basis) and from owners of city property showing gross receipts from rents, expenditures incurred by owner, and total taxes paid on each piece of property. All data were secured through personal interviews with owners or their representatives. In some instances owners of rented farms gave their gross receipts in kind—so many bales of cotton, bushels of corn, etc. In such cases the rent in kind was reduced to a cash basis by using prevailing farm prices. For the most part, the period covered by the income and tax data was six years, 1924-29, inclusive.

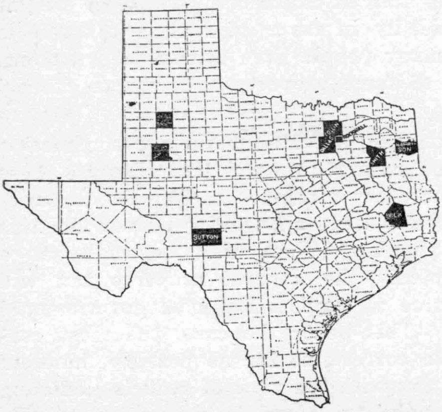

Figure 1. Counties in black are those selected for detailed study. Smith and Harrison Counties are located in the Piney Woods farming area, Polk in the Piney Woods lumbering area, Dallas, Collin, and Rockwall in the Black Prairie, Sutton in the Edwards Plateau grazing area, and Lubbock and Dawson Counties in the High Plains cotton area.

The flow of property in the Probate Courts of Brazos, McLennan, and Dallas Counties was tabulated for the period 1922-1931 according to three main classes—real estate, chattels, and intangibles.

The shaded portions in Figure 1 show the location of counties from which farm sales and income data were secured. While it is recognized that this sample does not represent each of the many areas in the State, it is believed to be characteristic and representative of the important problems involved in the assessment and taxation of farm lands and city property and should serve adequately for purposes of concrete illustrations.

No attempt has been made to review, in this Bulletin, the vast amount of literature available on the subject. Many of the agricultural experiment stations are conducting research on various phases of farm taxation and a number of bulletins have been published. The Bureau of Agricultural Economics, U. S. Department of Agriculture, recently published (1928) a selected and annotated bibliography, entitled "Taxation and the Farmer." This bibliography is rather complete for the period 1900 to 1928. Those interested should find it helpful.

LEGAL ASPECTS OF PROPERTY ASSESSMENT IN TEXAS

The laws of Texas, like those of many other states, require real estate to be assessed at its market value. According to Article 8, Section 1, of the State Constitution, "Taxation shall be equal and uniform. All property in the state, whether owned by natural persons or corporations, other than municipal, shall be taxed in proportion to its value, which shall be ascertained as may be provided by law * * *." According to subsequent legislation, "All property, real, personal, and mixed, except such as may be hereinafter expressly exempted, is subject to taxation * * *." "Each separate parcel of real property shall be valued at its **true and full value** in money, excluding the value of crops growing or ungathered thereon." "Personal property of every description shall be valued at its true and full value in money * * *."

"In determining the true and full value of real and personal property the assessor shall * * * value each tract or lot by itself and at such sum and price as he believes the same to be fairly worth in money at the time such assessment is made."

"The term 'true and full value,' whenever used shall be held to mean the fair market value, in cash, at the place where the property to which the term is applied shall be at the time of assessment, being the price which could be obtained therefor at private sale, and not at forced or auction sale."*

It is quite evident that market or sale value as determined in the ordinary course of trade is the legal basis on which all property tax levies are presumed to be made under the laws of Texas. Forced, manipulated, and speculative sales should be eliminated in the consideration of basic values.

ASSESSMENT BASICALLY IMPORTANT

Assessment is basic in all procedure of property taxation. If the assessment is defective no amount of patching will correct the resulting inequalities. A proper adjustment of the tax burden on property depends upon a complete and equitable assessment of the property taxed. The chief aim, therefore, of real estate assessment is to arrive at such a

* Baldwin's Texas Statutes, Chapter 6, Articles 7141, 7149, and 7179.

valuation of each parcel of property that the highest possible degree of uniformity will be attained, not only between individual properties within a given district but also between different governmental units, particularly counties. To this end, at least two fundamental requirements should be met by any system of assessment. First, **all taxable property should be listed;** and second, **all taxable property should be listed at uniform and comparable values provided by law.**

ASSESSMENT OF PERSONAL PROPERTY

With this understanding, let us examine the results of our methods of assessment in regard to the first test proposed; namely, that all property taxable under the law be listed for taxes. The Tax Survey Committee of Texas, created by the Fortieth Legislature, in its final report, 1929, calls attention to the escape of personal property from taxation. It states, by way of illustration, that on December 31, 1925, the demand deposits held by incorporated banks in the state amounted to $516,618,000; the amount of money reported by taxpayers as on hand or deposit on January 1, 1926, was $25,283,595, or 4.8 per cent of the demand deposits reported for the previous day. The amount of money on hand or deposit accounted for by assessors during the period 1921-1929, ranged from 2 to 5.7 per cent of the total deposits of state and national banks, and averaged 2.7 per cent (Table 1). The total deposits include those belonging to counties, cities, and other governmental jurisdictions, and to non-residents, which are not taxable. The amount of such deposits is not known, but with a liberal allowance for such deposits the amount of this kind of property rendered for taxation is relatively insignificant. This information is not presented as an argument in favor of taxing bank deposits at the high rate prescribed by the general property tax, but as an illustration of the failure of the general property tax to reach such property. Obviously if the owners of such property are to be reached it will be necessary to employ some method other than the present general property tax.

Table 1. Deposits of National and State Banks in Texas* and the Amount of Money on Hand or Deposit†, Assessed for Corresponding Years, 1921—1929.

Year	Total Deposits National Banks	Total Deposits State Banks	Total Deposits State and National Banks	Money on Hand or On Deposit Assessed for Taxes	Percentage of Total Deposits
1929	$952,136,000	$245,098,000	$1,197,234,000	$24,242,641	2.0
1928	907,609,000	264,050,000	1,171,659,000	22,980,479	2.0
1927	841,840,000	252,848,000	1,094,688,000	27,091,514	3.3
1926	797,741,000	215,741,000	1,013,482,000	25,238,595	2.5
1925	802,301,000	265,702,000	1,068,003,000	25,257,220	2.4
1924	679,015,000	321,475,000	1,000,490,000	24,385,633	2.4
1923	487,848,000	305,071,000	792,919,000	30,427,355	3.8
1922	520,645,000	262,163,000	782,808,000	26,485,084	3.4
1921	476,394,000	237,848,000	705,242,000	31,411,200	5.7
Average	$718,392,000	$263,333,000	$ 980,725,000	$26,391,108	2.7

*"Trends of Development of Texas Financial Institutions," by R. V. Shirley and Bervard Nichols, Bureau of Business Research, University of Texas, Austin.

†State Comptroller's Reports.

The report of the Tax Survey Committee further states that evasions similar to that of bank deposits characterize the taxation of credits and securities. This is verified by an examination of the annual reports of the Comptroller. For example, in 1930, of the 254 counties reported, 35 showed no assessment whatever of intangibles, 164 no credits, and 217 no bonds or stocks. The situation for the past eleven years is summarized in Table 2, which shows the percentage of intangible property assessed—money, credits, bonds, and stock—to all property assessed. This it will be observed, has gradually declined from 3.17 in 1921 to .86 per cent in 1931.

Table 2. Amount of All Property, Tangible Property and Intangible Property, Assessed Annually in Texas, 1921—1931*

Year	Amount of Property Assessed			Percentage Intangible Property is of All Property
	All Property	Tangible Property	Intangible Property—Money, Credits, Bonds, and Stock other than Bank Stock	
1931	$4,241,682,299	$4,205,166,043	$ 36,516,256	.86
1930	4,328,212,712	4,260,711,033	67,501,679	1.56
1929	4,210,105,462	4,136,865,505	73,239,957	1.74
1928	3,961,426,097	3,881,836,192	79,589,905	2.01
1927	3,899,958,777	3,820,990,905	78,967,872	2.02
1926	3,644,823,070	3,569,863,109	74,959,961	2.06
1925	3,602,217,082	3,521,870,224	80,346,858	2.23
1924	3,419,091,814	3,333,370,219	85,721,595	2.57
1923	3,423,103,371	3,334,323,431	88,779,940	2.59
1922	3,242,266,587	3,156,028,832	86,237,755	2.73
1921	3,455,360,089	3,345,807,120	109,552,969	3.17
Av.	3,766,204,305	3,687,893,873	78,310,431	2.08

*Compiled from State Comptroller's Reports.

The escape of intangible personal property is vitally significant for two important reasons; first, because we depend so largely upon the general property tax for state and local revenues, particularly local revenues; and second, because intangibles comprise such a large proportion of all property in the state.

The amount of intangible property owned in the state is not known and for this reason no direct comparison can be made between the amount of tangible and intangible property. It is in this connection, however, that the results of a preliminary study of the probate records of Dallas, McLennan, and Brazos Counties for the ten-year period 1922 to 1931, have a significant bearing. An effort was made to tabulate every estate recorded in the minutes of the Probate Court for which there was an inventory and appraisal. In all, these amounted to 5,346 estates. The property inventoried in the records is divided into real estate and personal, and the personal property so itemized and described that it can be grouped into "chattels" and "intangibles." "Chattels" embrace all those objects, whether animate or inanimate, which in contemplation of law are movable. "Intangibles" have no substantive existence and exist merely in contemplation of law, and consist for the most part of notes, stocks, bonds, cash, book accounts, etc. Thus the property inventoried in each estate examined was classified and tabulated according to the three classes—real estate, chattels, and intangibles.

The results of the study of probate records are presented in Table 3.

Without going into the details for each county, attention will be called to results based on the average of the three. It is at once apparent that real estate and intangible property comprise by far the greater portion of the property probated—97.6 per cent. The proportion of each is practically the same, real estate 48.6 per cent and intangible property 49 per cent. The amount of property designated as "chattels" is 2.4 per cent of the total. Probably the most significant feature of the table is the relatively large amount of the property probated which is intangible.

Table 3. Amount and Classification of Property Probated in Dallas, McLennan, and Brazos Counties for the Ten-year Period 1922-1931, Inclusive

County	Total Property Probated	Real Estate	Percentage of Total	Chattels	Percentage of Total	Intangibles	Percentage of Total
Dallas	$ 92,204,815	$41,791,803	45.3	$2,025,396	2.2	$48,387,616	52.5
McLennan	22,194,202	13,671,914	61.6	662,583	3.0	7,859,705	35.4
Brazos	1,435,720	836,305	58.3	116,737	8.1	482,678	33.6
Grand Total	$115,834,737	$56,300,022	48.6	$2,804,716	2.4	$56,729,999	49.0

In connection with this table it should be explained that there is reason to believe that real estate and chattels are usually appraised at a conservative value, while certain forms of intangibles such as stocks and bonds are generally appraised at par value, which may or may not be a conservative value, depending on the market situation for such securities.

Further, it should be observed that the proportion of intangible property taxable under the laws of the state is not known. Certain forms of intangibles such as U. S. bonds and other federal securities, as well as the shares of stock of domestic corporations whose property is taxable in the state, are exempt. It is fair to assume, however, that with liberal allowances for exemptions, a large proportion of intangible property escapes taxation.

The findings of this preliminary study of probate records in Texas are substantiated by a report of H. S. Hicks as Secretary of the Illinois Revenue Investigating Commission, published in the November, 1930, Bulletin of the National Tax Association, Volume XVI, No. 2, pp. 37-39. According to the Illinois report, the property passing through probate in three selected counties of that state for the decade from 1920 to 1930 averaged 44.8 per cent real estate, 3.6 per cent chattel, and 51.6 per cent intangible property.

In order to compare the division of property as indicated by the probate records with the tax load which each class of property bears, the assessment rolls for the three counties for the year 1931 have been tabulated and combined in Table 4. According to the probate records, real estate constitutes 48.6 per cent of all property, whereas it constituted 70.8 per cent of all assessed property. The probate records show chattel property to comprise 2.4 per cent of all property probated, while 25.8 per cent of the property assessed was grouped in this class. Intangible property, which was 49 per cent of all property passing through probate, was only 3.3 per cent of all property assessed in these three counties in 1931.

Table 4. Amount and Classification of Property Assessed in Dallas, McLennan, and Brazos Counties, 1931.

County	Total Assessed Value	Assessed Value, Real Estate	Percentage of Total	Assessed Value, Chattels	Percentage of Total	Assessed Value, Intangibles	Percentage of Total
Dallas	$322,832,130	$219,083,345	67.8	$ 91,917,975	28.5	$11,830,810	3.7
McLennan	70,468,270	57,933,240	82.3	10,867,400	15.4	1,607,630	2.3
Brazos	10,838,991	8,930,254	82.4	1,603,381	14.8	305,356	2.8
Grand Total	$404,139,391	$286,006,839	70.8	$104,388,756	25.8	$13,443,796	3.3

The three counties included in this study were selected as being representative of typical situations. For example, Brazos County has a relatively large rural population and limited industrial development, while Dallas County is at the other extreme with a relatively large urban population and a marked industrial development. McLennan County falls somewhere between the two extremes in regard to the distribution of its population and industrial development. In so far as the sample is representative, it shows conclusively that intangible property constitutes a large and important part of our total wealth and that only a very small percentage of it is being reached by direct taxes. On the other hand, the tangible forms of property like real estate and chattels are bearing a disproportionately heavy tax burden. Assuming that this ratio of intangible to tangible property is approximately correct for Texas, one can readily see how the escape from taxation of such a large and expanding taxable source places an ever-increasing burden of taxes on the more tangible forms of property, especially real estate.

STATE AND LOCAL TAXES NOT CLOSELY RELATED TO NET INCOME

Further evidence of the disproportionately heavy burden of taxes borne by tangible property in the state is illustrated in a general way by a brief examination of the sources of current net incomes in relation to the sources of taxes. According to the findings of the National Bureau of Economic Research relative to current net incomes of individuals by states, the income in Texas derived from the ownership of all property was 23.4, 22.5, and 20.7 per cent of the total net income respectively for the years 1919, 1920, and 1921. Income due to personal industry for these years amounted to 76.6, 77.5, and 79.3 per cent respectively. The full significance of this should be more keenly appreciated when examined in connection with the source of state and local tax revenues. In its publication, "Costs of Government in the United States, 1927-28," the National Industrial Conference Board states that in 1927 Texas derived 76.15 per cent of its state and local revenues from the general property tax. Assuming that the percentage distribution of incomes is now approximately that of the years 1919, 1920, and 1921, and that the sources of state and local revenues have not changed materially since 1927, we have the situation in which property yielding only one-fifth to one-fourth of the current net income pays three-fourths of all state and local taxes. This is not all. The gravity of the situation becomes more serious in view of the fact that intangible property, estimated at 40 to 50 per cent of all property owned in the state, practically escapes taxation, leaving tangible property, largely real estate, which is estimated as the source of about 15 per cent of the total net income of individuals, as the paying agency of about three-fourths of all state and local taxes.

There is serious doubt as to whether any system of assessment can successfully reach intangible personal property. A number of states, notably Minnesota, Kentucky, Virginia, and Montana*, have attempted to reach such property by giving it a special classification and assessing it at a relatively low rate. Such attempts, on the whole, have not been very successful; at least not very productive of revenues. This suggests very strongly the need of a thorough revision of our present tax system in order to provide certain basic fundamentals now lacking. No amount of haphazard patching is calculated to result in equality and justice among taxpayers when certain essential principles of taxation have not been adequately recognized in the main structure of the tax system. It is useless to polish the whistle when the engine is in serious need of a complete overhauling.

There is a rather generally accepted principle in taxation, which if completely and consistently applied in Texas, would go a long way toward equalizing tax burdens. Reference is made to the general principle that **every person having tax-paying ability should pay a direct tax of some sort to the government under which he lives** and its corollary that such contributions should bear a close relation to ability to pay. With this principle in force the situation could not long exist in which 40 to 50 per cent of the taxable property practically escapes taxation. Wage earners, salaried employees, professionals, and persons having heavy investments in intangible forms of property, constitute a large part of our population and largely escape direct taxation. This is quite contrary to the basic principle of taxation already stated, and suggests the need of revising our system of taxation to provide some form of direct **personal taxation.**

Several forms of personal taxation have been employed from time to time by different countries. Chief among these forms of personal taxes are: the poll tax, a tax on net fortune, a presumptive income tax, and a personal income tax. The poll tax has never been very productive

* Leland, "The Classified Property Tax in the United States, 1928."

in any system of state and local taxation; however, there should be no objection, where the state so desires, to using it to supplement other forms of personal taxes. A tax on the net fortune of individuals has a number of objections, the most serious perhaps being that it is foreign to American experiecne. In the case of a presumptive income tax, it is difficult to find a satisfactory measure of ability to pay. The amount of house rent paid has been suggested as an indication of ability to pay, but such an item, in most cases, would be a very imperfect and inadequate indication of net income. This brings us to the fourth form mentioned, that of a personal income tax. Such a tax is probably better fitted than any other to carry out the principle that every person having taxable ability should make a reasonable contribution to the support of the government under which he lives.

UNIFORM AND COMPARABLE ASSESSED VALUES REQUIRED BY LAW

At this point let us consider the second essential of a good assessment system; namely, **that all taxable properties be listed for taxation at uniform and comparable values** which, according to the law, are their true and full value in money, or fair market value. In the administration of the law serious defects have arisen in a number of important respects. The more common inequalities have resulted from wide variations in the average level of assessment of property from county to county, from extreme variations in the assessment of individual properties of the same kind and under the same jurisdiction, and from variations in the assessment of different kinds of property.

Trend of Sales Price and Taxes per Acre on Farm Land

For the past several years taxpayers have been aware of increasing taxes and gradual declines in property values. This situation is portrayed graphically in Figure 2 which shows the percentage trend in the sales price and total taxes per acre on farm lands in Harrison, Collin, and Dawson Counties, for the period 1915-1930. It will be observed that land values in each county showed a response to high prices for agricultural products during and after the war. The most decided increase in value took place during the period 1917-19, inclusive.

There are significant differences, however, in the trend of land values in each county which should be recognized. In Harrison County, selected as fairly representative of the Piney Woods farming area of northeastern Texas, land values were slow to rise, slow to fall, and did not reach a decided peak or very high level. This is undoubtedly explained largely by the fact that farming in the area is characterized by small farms, small-scale methods of production, a relatively wide diversity of crops—conditions conducive to a high degree of self-sufficiency in farming. The behavior of farm land values in Collin County, representative of the Black Prairie farming area, presents a sharp contrast to that of Harrison County. In the case of Collin County, values rose rapidly to a high peak in 1919; by 1922 they had declined to about the 1917-18 level and remained on this level until 1926, since which time land values have steadily declined to a point below that of 1915. One is struck by the close similarity between the trend of farm land values in Collin County and the area which it represents, and the trend in the price of cotton. This relationship is explained by the type of farming in the Black Prairie, which is characterized by a high degree of specialization in cotton production. Cotton occupies about 75 per cent of the crop area and is the source of about 90 per cent of the cash farm income.

A very different picture is presented by the trend of farm land values in Dawson County, selected as fairly representative of the High Plains cotton farming area. It will be observed that values doubled from 1917 to 1919, held their own through the depression of 1920-21, made another decided rise from 1922 to 1925, and since have declined noticeably; but values are still about two and a half times higher than in 1915. This is certainly a decided departure from the trend of farm land values in the greater part of the state. To understand the behavior of values in this and similar areas it is necessary to recognize the stage of development at the beginning of the period. At that time the High Plains cotton area of Texas marked the extreme western border of the Cotton Belt. A rapid transition was taking place in the use of land from grazing to that of growing crops, principally cotton and grain sorghum. Land values for farming purposes were not very definitely established at the time prices were rising so rapidly. In other words, farm land values were on a relatively low level at the beginning of the period and the availability of a rather large supply of unsettled land prevented values going as high as would otherwise have been the case; hence undue inflation does not seem to have resulted.

The most outstanding feature of Figure 2 is the striking increase shown in taxes per acre during the period. One will readily observe that taxes for the three counties are two to three times higher on farm lands at present than in 1915. The most noticeable increase took place during the years 1918, 1919, and 1920. Undoubtedly the greater part of this increased taxation was due largely to an increase in local expenditures; principally for schools and roads. This is quite obvious from the fact that the total state rate, 55 cents in 1915, and at its highest, 77 cents in 1925, represents only a 40 per cent increase in the rate even when extremes are considered. State ad valorem taxes relative to total revenue receipts show a decrease from 39.5 per cent in 1924 to 20.5 per cent in 1931. In absolute amount the tax has not changed materially. To be sure, state revenues have increased rapidly since 1924, but by far the greater part of the increase has been due to an increase in the gasoline tax. In 1924 the amount of the gasoline tax was slightly more than 5 per cent of the total revenue receipts, while in 1931 it amounted to 30.5 per cent. In absolute amount it increased from $3,229,132.11 in 1924 to $32,993,614.17 in 1931. On the other hand, the ad valorem tax in 1924 was $24,410,711.69 and $22,189,612.24 in 1931.

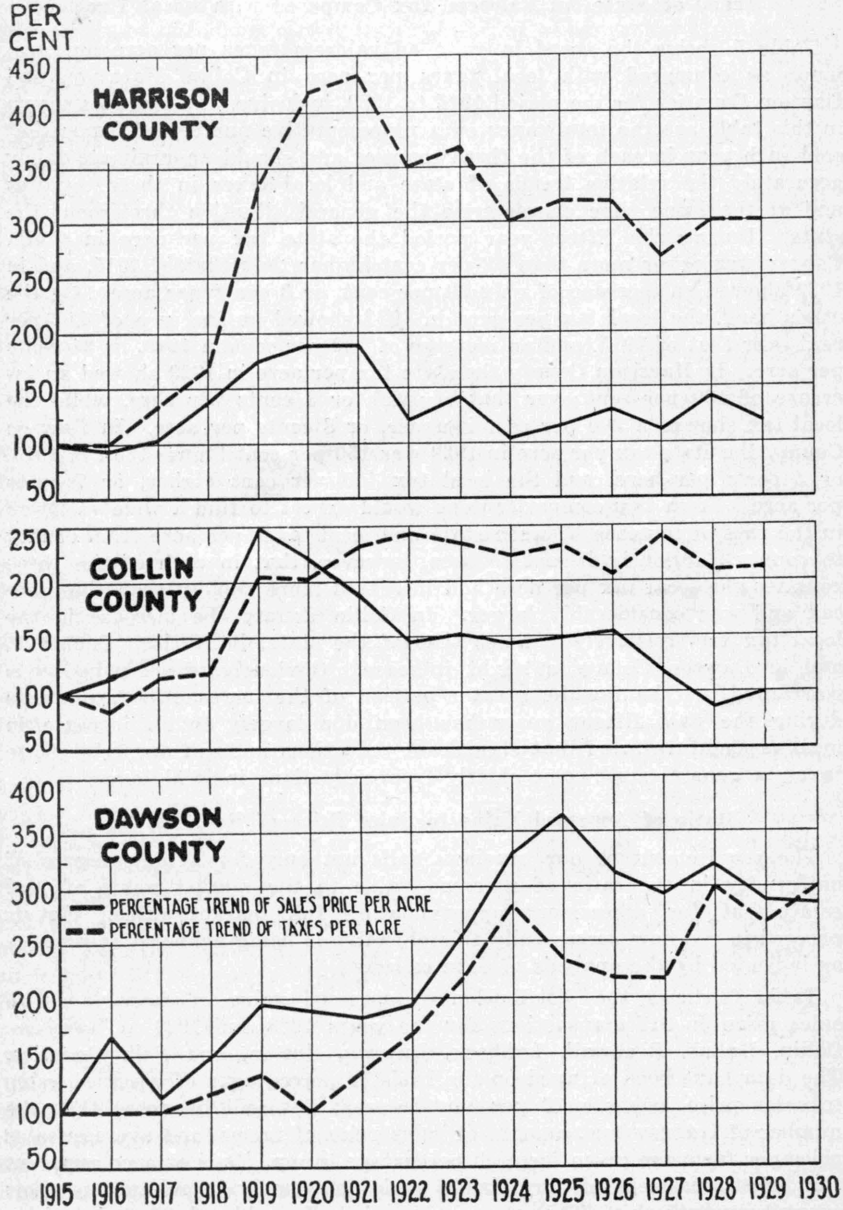

Figure 2. Percentage trend in the sales price and tax per acre of farm land in Harrison, Collin, and Dawson Counties, for the period 1915—1930, inclusive. Sales and tax figures per acre for 1915=100.

Trend of State Ad Valorem Tax Compared with Local Tax

Table 5 shows the trend in state ad valorem taxes per acre on farm lands as compared with local taxes per acre in Collin, Harrison, and Dawson Counties for the period 1915 to 1929, inclusive. The figures shown in this table are the total taxes on a representative number of farms that sold each year in each of the three counties and should approximate fairly accurately the relative trends of state and local taxes in these counties and at the same time characterize the general situation throughout the state. During the fifteen-year period the state tax per acre in Collin County was never more than 62 per cent higher than that of 1915, and in 1929 showed an increase of only 23 per cent, or 3 cents per acre. On the other hand, the local tax per acre in 1927 showed an increase of 214 per cent over that of 1915, and an increase of 162 per cent in 1929, or 34 cents per acre. In Harrison County the state tax per acre in 1929 showed an increase of 100 per cent over that of 1915, or 3 cents per acre, while the local tax showed a 200 per cent increase, or 8 cents per acre. In Dawson County the state tax per acre in 1929 was 150 per cent higher than in 1915, or 3 cents per acre, and the local tax 175 per cent higher, or 7 cents per acre. From this comparison one would expect to find a wide variation in the rate of increase between state and local taxes per acre from county to county. It is significant to note, however, that in each of the three counties the local tax per acre had increased more rapidly than the state tax and was considerably larger. In Collin County the increase in the local tax was relatively 7 times that of the state, in Harison County 2, and in Dawson County a slight increase. Obviously, the conclusion is warranted that by far the greater portion of the increase in farm taxes during the past fifteen years has been due largely to an increase in local expenditures, and that significant reductions in farm and real estate taxes in general must come chiefly from reductions in local taxes.

Ratio of Assessed Value to Sales Price of Real Estate

The requirement of our tax laws calls not only for a high degree of uniformity in the ratio of assessed value to the market value of real estate but for assessment approximating full market value. Let us proceed to see how successfully this objective is being achieved in practice as indicated by the analysis of data collected.

Table 6 shows the distribution of assessed value of farm lands to sales price on 917 transactions for the years 1928 and 1929 in Harrison, Collin, Dallas, Rockwall, Lubbock, Dawson, Sutton, and Polk Counties. The data have been arrayed on the basis of percentages of assessed value to sales price, using a 10 per cent interval. It will be noted that the number of transactions, amount of sales price of farms, and average sales price per farm are given for each percentage group. It is at once apparent that the assessment of farm lands varies extremely in relation to their current market value. The extreme range is indicated by the fact that there were 22 farms with an assessment of 1 to 10 per cent of sales price and 25 farms with an assessment of 101 per cent and over of sales price. The more significant variations are indicatend as follows: 21.5 per cent of the farms were assessed at 1-20 per cent of their sales price, 44 per cent at 21-40 per cent of sales price,20 per cent at 41-60 per cent of sales price, and the remaining 14.5 per cent at 61 per cent and over of the sales price. The more common assessment was at 11 to 50 per cent of sales price. Obviously inequality is the rule, while uniformity and assessment at full market value, requirements of the law, are rare exceptions.

Tabe 5. Trend of State Taxes per Acre on Farm Lands in Collin, Harrison, and Dawson Counties Compared with Local Taxes, 1915—1929.

Year	Collin County				Harrison County				Dawson County			
	State Tax per A.	Percentage of 1915	Local Tax per A.	Percentage of 1915	State Tax per A.	Percentage of 1915	Local Tax per A.	Percentage of 1915	State Tax per A.	Percentage of 1915	Local Tax per A.	Percentage of 1915
1915	$.13	100	$.21	100	$.03	100	$.04	100	$.02	100	$.04	100
1916	.10	77	.19	90	.02	66	.05	125	.02	100	.04	100
1917	.15	115	.24	114	.03	100	.05	125	.02	100	.04	100
1918	.14	108	.25	119	.02	66	.08	200	.02	100	.05	125
1919	.21	162	.48	229	.06	200	.14	349	.03	150	.05	125
1920	.17	131	.52	248	.06	200	.19	475	.02	100	.04	100
1921	.17	131	.62	295	.06	200	.19	475	.02	100	.06	150
1922	.20	154	.63	300	.06	200	.15	375	.03	150	.07	200
1923	.20	154	.60	286	.07	233	.15	375	.04	200	.09	225
1924	.19	146	.57	271	.06	200	.12	300	.05	250	.12	300
1925	.20	154	.59	281	.06	200	.13	325	.04	200	.10	250
1926	.17	131	.53	252	.06	200	.13	325	.04	200	.09	225
1927	.16	123	.66	314	.05	166	.11	275	.04	200	.09	225
1928	.15	115	.56	267	.05	166	.13	325	.05	250	.13	325
1929	.16	123	.55	262	.06	200	.12	300	.05	250	.11	275

Table 6. Distribution of Assessments on the Basis of Assessed Value to Sales Price of Farm Lands in Representative Counties*, 1928—1929.

Percentage of Assessed Value to Sales Price	Number of Farms	Percentage of Total Number	Total Sales Price of Farms	Percentage of Total Sales Price of Farms	Average Sales Price per Farm
1 — 10	22	2.40	$ 224,230	4.51	$10,192.20
11 — 20	176	19.19	1,709,946	34.43	9,715.60
21 — 30	240	26.17	1,549,662	31.20	6,456.92
31 — 40	163	17.78	696,626	14.03	4,273.78
41 — 50	112	12.21	285,122	5.74	2,545.73
51 — 60	72	7.85	216,145	4.35	3,002.01
61 — 70	41	4.47	94,199	1.90	2,297.53
71 — 80	30	4.47	36,867	.74	1,228.90
81 — 90	20	2.18	34,834	.70	1,741.70
91—100	16	1.74	90,578	1.82	5,661.12
101 & over	25	2.73	28,313	.57	1,132.52
Total	917	100.00	4,966,522	100.00	5,416.05

*Harrison, Collin, Dallas, Rockwall, Lubbock, Dawson, Sutton, Polk.

Not only is there a wide departure from the principles of uniformity and equality in the assessment of farm lands, but another principle in taxation equally important is generally violated. Reference is made to **regressive taxation**, which is the case when the rate increases as the property or income decreases. Only a glance at Table 6 is sufficient to show that the average sales price per farm is highest in the percentage group having the lowest ratio of assessment to sales and that the ratio of assessment increases as the average sales price per farm gradually decreases.

A number of plausible reasons may be assigned for the tendency to assess small farms at a higher proportion of their value than that of large farms. The assumption to begin with is that the assessor does not consciously and deliberately assess the small property higher than the large property, but that this inequality results from a lack of specific training and system in making assessments. The assessor is more familiar with small properties. The bulk of the properties which he assesses are relatively small. They are a part of his experience, easy to inspect and comprehend. On the other hand, the large property is not so easy to inspect, and more difficult to comprehend and evaluate. Then too, the chances are that the owners of the large properties are more concerned and more aggressive in their efforts to keep the assessment on their property as low as possible. Regardless of what the cause or causes are for such discrepancies, it suggests very decidedly the need for greater care to be given to individual assessments.

The distribution of assessments of town and city real estate on the basis of the percentage of assessed value to sales price for 1928 and 1929 is shown in Table 7. A detailed discussion of this table is not considered necessary since the facts which it reveals are strikingly similar to those of Table 6. The wide range in assessment, the more common assessment at 11 to 50 per cent, and the regressive nature of assessments are all present. In fact, the regressive nature of assessment, or the tendency to assess small properties at a higher percentage of their sales price than large properties, is more evident in the case of city property than in that of farm property. Any differences in the assessment and taxation of farm lands and city properties for state and county purposes are differences of degree and not of kind.

Average Percentage of Assessed Values to Sales Prices of Farm Lands

The distribution of assessments on the basis of the percentage of assessed value to sales of farm lands and city property, as presented in tables 6 and 7, disregards the identity of county units. There are variations in the average percentage of assessment from year to year in the same county and between counties far too important to be overlooked. The data presented in Table 8 illustrate this point quite clearly. The average percentage of assessed values to sales price of farm lands in the eight counties studied ranged from 15.7 in Dallas to 46.8 in Polk. On this basis the state taxes of Polk County are relatively three times as high as those of Dallas County. This is a concrete illustration of the inequalities between counties throughout the state. For the most part, these discrepancies are the result of a deliberate effort on the part of the assessor to keep assessments down in order to lessen the contribution to the state by the property in his county. This naturally results in state-wide competition among the 254 counties in undervaluation. Thus we have another prolific source of inequalities in taxation.

Information similar to that shown in Table 8 for farm lands is presented in Table 9 for town and city property. The variations shown in this table are similar to those shown for farm lands. They differ only in degree. The range in the assessment level is not as wide, yet quite noticeable. With one exception the assessment level in each county is higher for city property than for farm lands. The important point is the variation in assessment levels between counties.

Inequalities Between Individual Properties

As previously stated, the State Constitution and the Statutes of Texas call for an assessment of property for purposes of taxation at full market value. While this is both the logical and legal basis, it is not so absolutely essential that this standard be maintained as it is to maintain a high degree of u n i f o r m i t y in assessments throughout the state as between counties, and especially between individual properties of the same and different kinds under the same jurisdiction. It should be immaterial to the taxpayer whether his assessment is high and his tax rate low or his assessment low and his tax rate high so long as he is called to contribute a definite amount for governmental services rendered. It makes a very serious difference, however, if his tax bill is relatively much higher than that of his neighbor in the same jurisdiction on land of practically the same quality. The actual situation for 1929 is shown in Figure 3 for Collin, Harrison, Dawson, and Lubbock Counties.

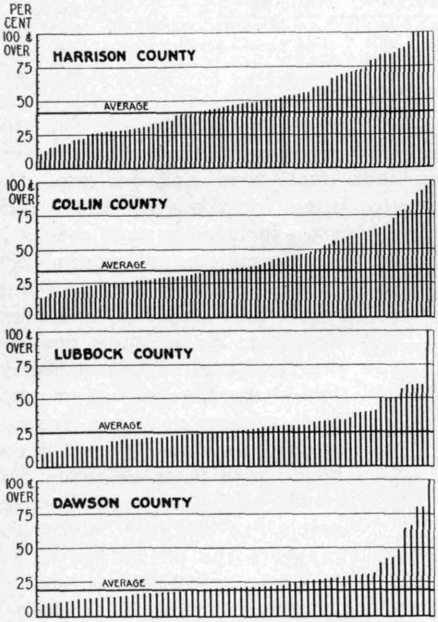

Figure 3. Variation in the percentage of assessed value to sales price per acre between individual farms. Each vertical line represents a single farm that sold during the year 1929 and its height indicates the percentage of assessed value to sales price.

Table 7. Distribution of Assessments on the Basis of Assessed Value to Sales Price of Town and City Real Estate in Representative Counties*, 1928—1929.

Percentage of Assessed Value to Sales Price	Number of Properties	Percentage of Total Number	Total Sales Price of Properties	Percentage of Total Value of Properties	Average Sales Price per Property
1 — 10	86	8.02	$ 347,017	11.66	$4,035.08
11 — 20	131	12.21	535,857	18.00	4,090.51
21 — 30	222	21.25	819,623	27.53	3,691.99
31 — 40	234	21.81	590,853	19.85	2,525.01
41 — 50	167	15.56	346,166	11.63	2,072.85
51 — 60	79	7.36	184,621	6.20	2,336.97
61 — 70	35	3.26	53,641	1.80	1,532.60
71 — 80	24	2.24	38,650	1.30	1,610.41
81 — 90	15	1.40	11,997	.40	799.80
91 —100	32	2.98	18,248	.61	570.25
101 & over	42	3.91	30,608	1.03	728.76
Total	1,073	100.00	2,977,281	100.00	2,774.72

*Harrison, Collin, Rockwall, Dallas, Dawson, Lubbock, Sutton.

Incidentally, there is good reason to believe that this illustrates fairly accurately the situation regarding inequalities in assessment between individual farms throughout the state.

Table 8. Average Percentage Assessed Value is of Sales Price on Farm Lands in Representative Counties, 1924—1930.

County	Total Number Farms Included	Average Annual Per Cent Assessed Value Is of Sales Price							Average Percentage Assessed Value Is of Sales Price by Counties for Period
		1930	1929	1928	1927	1926	1925	1924	
Dallas	239			15.5	20.1	14.9	14.3	15.2	15.7
Dawson	431	21.3	19.7	19.7	16.1	14.8	13.2	16.4	16.9
Sutton	74			15.8	24.6	24.2	24.2	21.6	22.0
Lubbock	156	28.4	25.8	26.3	22.1				26.2
Rockwall	219		31.3	35.9	28.6	25.4	25.6	23.4	27.4
Collin	584		34.2	38.9	31.3	24.1	24.6	25.4	30.1
Harrison	462		41.8	35.8	39.6	41.4	41.7	45.8	40.8
Polk	443	58.6	56.2	39.1	43.9	48.8	44.5	37.7	46.8

Each vertical line represents an individual farm and indicates the per cent of its assessment to the sales price for the year 1929. The average percentage of assessment for the farms included in each county is indicated by the heavy horizontal line. Had complete uniformity been achieved each vertical line would have ended on this average line. As is quite obvious, the results are far from ideal. The percentage of assessment, for a number of farms, far exceeds the average, very few coincide with it, while many fall considerably below it. For example, in Collin County the range in the percentage of assessment on 177 farms sold in 1929 varied from 15 to 118 per cent with 34.2 as the average. This indicates that the farm having the high percentage paid 8 times the proportion of taxes as did one with the low.

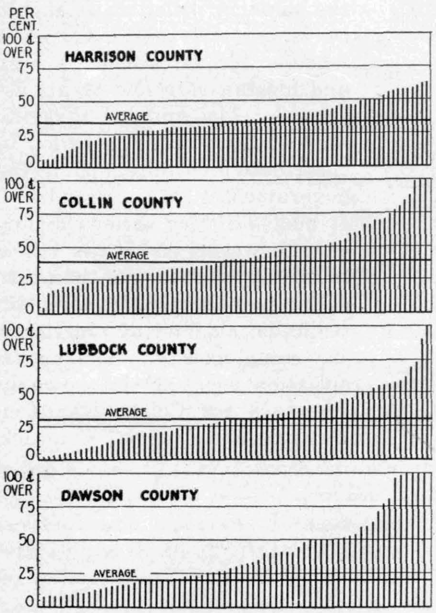

Figure 4. Variation in the percentage of assessed value to sales price of city property between individual properties. Each vertical line represents a single piece of property that sold during 1929 and its height indicates the percentage of assessed value to sales price.

Figure 4 shows the wide variation in the percentage of assessments to sales prices for city property in Collin, Harrison, Dawson, and Lubbock Counties on the individual property basis. Here, as in Figure 3, it will be readily observed that the same characteristic pattern or distribution of percentages is exhibited—extreme variations in percentages, relatively low average percentages compared with legal requirements, but slightly higher than the averages shown in Figure 3.

From the foregoing discussion it should be apparent that improving the method of assessing individual properties would help to equalize the burden of taxes on farm property and city real estate. As has been previously pointed out, general property is the principal source of revenue for supporting local government and furnishes a significant part of the support to the state government. This situation is likely to exist for many years to come, especially in regard to the support of local government. Obviously, then, it should be to the advantage of farm owners and real estate owners in general to encourage such improvements in methods of assessment as would give reasonable promise of greater uniformity.

Table 9. Average percentage Assessed Value is of Sales Price of City Property, 1924—1930.

County	Total Number Properties Included	Average Percentage by Years							Average Percentage for Period
		1930	1929	1928	1927	1926	1925	1924	
Dawson	500	24.2	30.3	27.7	24.2	19.3	18.1		21.4
Rockwall	219		37.0	28.5	29.5	30.6	28.2		30.3
Sutton	167			31.1	31.7	36.9	34.1	36.4	33.1
Lubbock	511	36.0	37.0	29.5	29.7				33.2
Collin	425		41.4	36.1	40.6	28.6	25.6		34.7
Dallas	289			25.4	32.8	25.8	42.2	44.5	36.6
Harrison	416		35.5	38.3	38.7	45.9	46.8		40.1

RELATION OF TAXES TO EARNING POWER OF FARM LAND AND CITY PROPERTY

The discussion immediately preceding has dealt with inequalities arising when assessed values and corresponding bona fide sales prices are compared. Sales price, or market value, has been taken as a point of departure because it represents more nearly the legal basis of assessment than any other measure. Admittedly certain valid objections may be raised as to whether or not sales price alone provides the best single basis for measuring the burden of taxes on rural and urban real estate. Without arguing the point, consider the burden of real estate taxes from an entirely different angle—that of income.

Ultimately all taxes are paid out of current income. It should be at once apparent that if an appreciable part of taxes is regularly paid from capital, this source will soon be impaired greatly and the very foundation of taxes materially weakened or destroyed. Not only should taxes be paid out of current income, but the amount taken for taxes should bear a close relationship to the amount of net income. Since there is no income tax in Texas for state and local purposes, such relationships as exist between taxes on property and incomes from property must necessarily result largely from our present assessment system.

The object, therefore, of the brief discussion which follows is to show various relationships of taxes to net cash income or rent on farm lands and city property with special emphasis on the degree of equality achieved when this basis of comparison is used instead of bona fide sales. To this end total taxes and income data were secured on 2,659 rented farms (third-and-fourth basis) in Dawson, Smith, Dallas, Harrison, Rockwall, Collin, and Lubbock Counties and comparable data were secured on 877 rented city properties in the same counties except Smith and Rockwall. The period covered, in the majority of cases, was 1924-29, inclusive. The cash income or rent figure used as a basis for showing the relation of taxes is the amount before deducting taxes and interest paid on indebtedness against the property. Almost without exception, farm rent was paid in kind and has been reduced to a cash basis with the assistance of the farm owner. The deductions from gross rent were repairs, insurance, and materials for production such as fertilizer furnished by the owner. No reductions were made for depreciation. The information was secured by personal interviews with owners, and by an examination of county and district tax rolls from which the desired tax data were taken.

Percentage of Rent Absorbed by Taxes

Table 10 shows the distribution of 1,151 farms for 1928-29 on the basis of percentage of taxes to rent with a 10 per cent frequency interval. An examination of this table reveals at least two significant facts; namely, the extreme variation in the percentage of rent taken by taxes, and the regressive nature of the tax burden. The variation in the percentage of taxes to rent ranges from 357 farms in the 1-10 per cent group to 3 farms in the 101 per cent and over group. About 86 per cent of the number of farms studied falls in the first three groups, indicating that, for the majority of farms, 1-30 per cent of the rent was absorbed by taxes.

Table 10. Relation of Taxes to Rent from Farms in Representative Counties* by Percentage Groups, 1928—1929.

Percentage Taxes of Rent	No. of Farms	Percentage of Total	Total Rent from Farms, not Deducting Taxes and Interest Paid on Farm Indebtedness	Percentage of Total Income	Average Rent per Farm Before Taking Out Taxes and Interest
1 — 10	375	31.03	$ 283,557	34.80	$ 794.27
11 — 20	449	39.00	358,717	44.02	798.92
21 — 30	187	16.25	110,094	13.51	588.73
31 — 40	67	5.82	34,561	4.24	515.83
41 — 50	38	3.30	13,612	1.67	358.21
51 — 60	21	1.82	7,405	.91	352.61
61 — 70	10	.87	3,341	.41	334.10
71 — 80	11	.96	2,776	.34	252.36
81 — 90	3	.26	89	.01	29.67
91 —100	5	.43	576	.07	115.20
101 & over	3	.26	175	.02	58.33
Total	1,151	100.00	814,903	100.00	708.00

*Dawson, Smith, Dallas, Harrison, Rockwall, Collin, and Lubbock.

Further proof of the regressive nature of the tax burden on farm lands shows up in this table as well as in Table 6, showing the distribution of assessed values to sales prices. It will be noted in Table 10 that 1-20 per cent of farm rents averaging about $800 per farm, was absorbed by taxes, 21-40 per cent of rents averaging $500-$600 was absorbed by taxes, and so on to the extreme case of three farms having insufficient rent to pay the taxes levied. One would naturally expect this regressive feature to show up in taxes in relation to rent following the prevalent tendency to assess large farms and large city properties at relatively lower values than small farms and other small properties.

Table 11 is a sequel to Table 10 and shows the distribution of 877 city properties for 1928 and 1929 on the basis of the percentage of taxes to rent. The significant features of Table 10 are repeated in Table 11. The same tendency toward regressiveness is apparent and to a more marked degree than is the case with farm rents. This, too, one would expect to follow from the regressive nature of assessments on city property already pointed out in Table 7.

Table 11. Relation of Taxes to Rent From City Property in Representative Counties*, 1928—1929.

Per Cent Taxes of Rent	Number of Properties	Percentage of Total Properties	Rent from Properties Not Deducting Tax	Percentage of Total Rent	Rent per Property
1 — 10	27	7.65	$ 97,548	29.21	$3,612.88
11 — 20	149	42.21	170,231	50.98	1,142.49
21 — 30	96	29.19	38,145	11.42	397.34
31 — 40	32	9.06	14,793	4.43	462.28
41 — 50	17	4.82	4,676	1.40	275.06
51 — 60	5	1.41	1,096	.33	219.20
61 — 70	9	2.55	1,142	.34	126.89
71 — 80	2	.57	233	.07	116.50
81 — 90	-----	-------	----------	-------	----------
91 —100	2	.57	2,257	.68	1,128.50
101 & Over	14	3.97	3,794	1.14	271.00
Total	353	100.00	333,915	100.00	945.93

*Dallas, Lubbock, Collin, Dawson, and Harrison.

Average Percentage of Total Taxes to Rents by Counties

In Tables 10 and 11 emphasis has been placed on the wide range in variation of the percentage of rent from both farm land and city property taken by taxes. Also attention has been directed to the marked tendency to regressiveness in both cases. Other important aspects are revealed in the average annual variations by counties, and in the variation of average ratios between counties for the period 1924-29. A more definite idea of the nature and extent of these variations may be had by an examination of Table 12. As will be noted, there is considerable fluctuation in the average percentage of taxes to rent from year to year in each county studied. In almost every case, there is a tendency for the percentage to increase from 1924 to 1929. This is noticeably the case in Dawson and Lubbock Counties. A number of reasons may be cited as the cause of these fluctuations, such as variations in prices, changes in tax rates, and variations in the yields of crops, especially in the principal crop, which in all these counties is cotton. It is readily apparent that during periods of depression the percentage of taxes to rent may be expected to increase materially, due to the fact that taxes remain fairly fixed while prices for agricultural products decline. The situation is still worse when declining prices are accompanied by a short crop. For example, records show no significant changes in the tax per acre on farm lands in Lubbock County for the years 1928, 1929, and 1930, yet on the basis of the percentage of rent taken by taxes, the burden in 1930 was more than double that in 1928. This is accounted for largely by a decline in cotton prices, short crops, and no adjustment in taxes.

Another significant variation in Table 12 is that of the average percentage between counties for the period. This difference ranges from an average ratio of 5.3 in Dawson County to 23.3 in Lubbock County. Undoubtedly much of this is due to variations in the level of assessment, to differences in local improvements and local expenditures, and perhaps partly to variations in crops.

Table 12. Average Percentage Total Taxes Bear to Farm Rent (third and fourth basis) in Representative Counties, 1924-1930.

County	Total Number Farms Included	Average Percentage of Taxes to Farm Rent							Average Percentage for Period
		1930	1929	1928	1927	1926	1925	1924	
Dawson	580	9.6	6.5	6.3	4.2	6.1	7.0	2.0	5.3
Smith	225	----	12.7	11.0	11.6	13.0	7.8	11.7	10.9
Dallas	333	----	13.1	12.7	13.5	11.3	9.7	8.9	11.7
Harrison	253	----	15.9	14.0	11.0	15.8	12.3	25.0	14.4
Rockwall	67	----	16.0	16.4	17.0	23.4	16.2	14.2	16.8
Collin	880	----	18.7	17.1	22.5	24.5	14.6	11.8	18.0
Lubbock	221	44.3	25.8	20.6	16.7	21.2	26.4	10.9	23.3

The average percentage for the period 1924-29 and the average annual percentage of taxes to rent from rented city property are shown in Table 13. The data are quite similar to those of Table 12 regarding farm property, with the exception that there is a much greater regularity and uniformity in the year-to-year percentages, and a tendency for percentages to be somewhat higher. This checks with the fact that city property showed a somewhat higher average level of assessment than farm property. The high degree of uniformity in the percentage of income from rented city property taken by taxes is explained largely by the static nature of rent on this kind of property. In a number of cases rents are fixed over a period of years by a lease contract. Rents tend to become customary and for this reason are not very responsive to changes in economic conditions. It is different, however, with agricultural rent on a share basis. In the case of share rent, custom tends to fix the proportion of the various crops grown to be shared by tenant and owner, but the value of the share may fluctuate widely, depending upon price changes.

Table 13. Average Percentage of Total Taxes to Rent From Rented City Property, 1924-1930.

County	Total Number Properties Reporting	Average Annual Percentage of Taxes to Rent							Average Percentage for Period
		1930	1929	1928	1927	1926	1925	1924	
Dallas	201	----	12.7	12.1	13.1	12.4	12.2	12.2	12.4
Dawson	133	15.4	13.2	12.7	13.0	13.3	12.9	13.1	13.4
Collin	372	----	22.1	21.1	20.7	17.6	17.8	17.3	19.5
Harrison	31	----	24.3	22.5	20.3	26.2	24.8	27.0	23.9
Lubbock	140	32.3	21.6	36.6	18.9	16.9	16.2	20.9	25.8

Inequalities between Individual Farms and City Properties on the Basis of Percentage of Rent Absorbed by Taxes

One of the commonly accepted theories of taxation is that taxes should be borne according to ability to pay. It is generally agreed that net income is the best index of tax-paying ability. It follows that there should be a high degree of uniformity between individual properties respecting the percentage of rent taken for taxes. What are the facts in this regard? A clear picture of the situation is presented in Figure 5, which shows the variation in the percentage of taxes to rent to individual rented farms in Harrison, Collin, and Lubbock Counties for 1929 and for Dallas County in 1928. The vertical lines represent individual farms and are arrayed in ascending order of percentage of taxes to rent. The range in variation between individual farms is wider in some counties than in others. The range in Collin County, for example, is from 4.9 to 125, while in Dawson it is from 2.2 to 22.4. While is is recognized as fiscally impossible to completely eliminate these individual inequalities, it is believed that much greater attention given to the rental or income value of farm property as the basis of assessment would help to reduce inequalities to a minimum and in this way improve the situation materially.

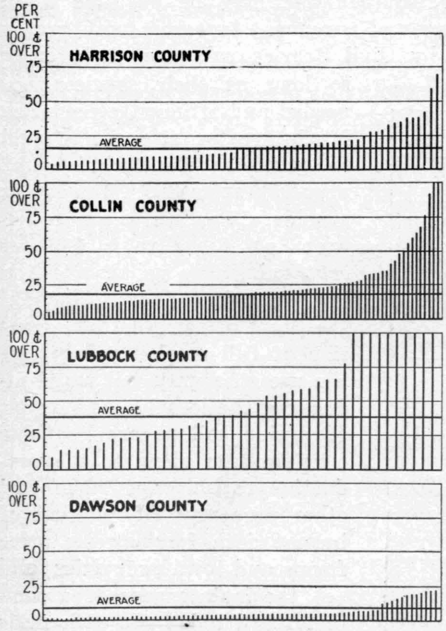

Figure 5. Variation in the percentage of rent from rented farms absorbed by taxes, 1929. Each vertical line represents an individual farm and its length indicates the percentage of rent absorbed by taxes. Corrections have not been made for variations in the county due to special taxes. Data are confined to farms rented on third-and-fourth basis.

Figure 6 shows for rented city properties what Figure 5 shows for rented farms. In general the characteristics of variations between individual rented city property, respecting the percentage of rent taken by taxes are quite similar to those exhibited in Figure 5 for rented farms. It should be noted, however, that the extreme variation so evident in the case of farms is not so marked for city property. However, it is not uncommon for one piece of city property to pay relatively 5 to 10 times as much taxes as another on the basis of rent.

SUGGESTIONS FOR EQUALIZING ASSESSMENTS

Let us review briefly some of the more important possibilities for improving assessments. The qualifications, supervision, tenure of office, and selection of the county assessor are matters of major importance to assure just and equitable assessment of property as between individuals. To begin with, the assessor should be equipped, both by training and experience, for the specific job of making assessments. Central control and supervision by a State Tax Commissioner or Commission should be helpful in coordinating efforts, standardizing methods throughout the state, and equalizing assessments between counties. The problem of equalizing assessment between counties may be obviated by a separation of state and county sources of revenue. Assessors with proper qualifications should be protected by Civil Service rules and hold office so long as their services are needed and efficiently rendered. Much greater attention should be given to the technique of property assessment. Important considerations in this connection are: (a) A return to 100 per cent valuations as required by law, or maintenance throughout the State of some definite fraction of full market value; (b) the use of county soil maps indicating the location and extent of major soil areas; (c) due consideration given to the productive capacity of farm and other property; (d) the use of income data for representative farms and town properties; and (e) the maintenance of a complete card index for each piece of property in the county, both taxable and exempt. Undoubtedly some such procedure as that would place the job of assessing on a much more scientific and systematic basis and contribute materially to uniformity of assessment and equalization of taxes.

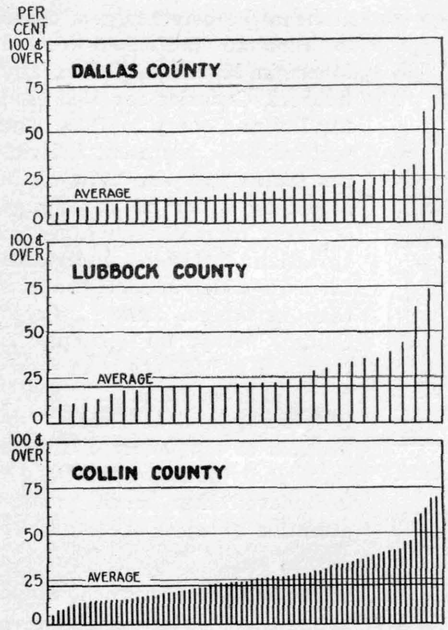

Figure 6. Variation in the percentage of rent from rented city property required for taxes. Each vertical line represents a single piece of property and its length indicates the percentage of rent absorbed by taxes. Corrections have not been made for variatons due to specail taxes. Data for Lubbock and Collin Counties are for the year 1929; data for Dallas County are for the year 1928.

SUMMARY AND CONCLUSIONS

The foregoing analysis of our assessment system reveals two outstanding weaknesses. The first of these is the failure to list intangible personal property for taxation; and the second, the failure to assess properties at uniform and comparable values.

Wholesale escape from taxation of intangible property is revealed. According to the State Comptroller's Reports for the past eleven years, 1921-1931, the assessed value of intangible property has averaged only slightly more than 2 per cent of the total assessed value of all property. Deposits of state and national banks have averaged $980,725,000 a year for the period 1921-1929, whereas the amount of money on hand or deposit assessed for taxes for the same period has averaged only 2.7 per cent of this amount. A study of the probate records of Dallas, McLennan, and Brazos Counties for the ten-year period 1922 to 1931 shows that of all property probated in the three counties, real estate constituted 48.6 per cent, chattels 2.4 per cent, and intangible property 49 per cent. The tax rolls for these same counties for the year 1931 showed that of the total assessed property valuation, real estate comprised 70.8 per cent, chattels 25.8 per cent, and intangibles 3.3 per cent.

Further evidence of the disproportionately heavy burden of taxes borne by tangible property in the state is indicated by the relation of tax sources to net income sources. The National Bureau of Economic Research reports that the net income of individuals in Texas derived from the ownership of property for the years 1919, 1920, and 1921, was one-fifth to one-fourth of the total income and three-fourths to four-fifths of their income was due to personal industry. The National Conference Board reports that in 1927 Texas derived 76.15 per cent of its state and local revenues from the general property tax. The two reports reveal the intolerable situation in which property yielding only one-fifth to one-fourth of the net income of the entire population is being required to pay three-fourths of the state and local taxes.

Gross inequalities were revealed in the assessment of individual properties. As an example, the percentage of assessment to sales price on 177 farms sold in 1929 in a single county varied from 15 per cent to 118 per cent with an average of 34 per cent. In other words, it is not uncommon to find farms in the same county varying 8 to 10 fold in the relative rate of assessment. The percentage of assessed value to sales price on 917 bona fide farm sales for the years 1928 and 1929 showed that 75 per cent of the farms were assessed at 11 to 50 per cent of the sales price, with wide variations from this common group. Similar inequalities were revealed when comparisons were made on the basis of the percentage of taxes to rent. Similar inequalities were found in the case of city property.

The average percentage of assessed value to sales price of farm property in each of the eight counties studied ranged from 15.7 per cent to 46.8 per cent. On this basis state taxes in the county having the high assessment level are relatively three times as high as those in the county with the low level. It is readily apparent that with such varying assessment levels from county to county throughout the state, the state ad valorem tax becomes a hodgepodge of inequalities.

A decided tendency to assess large farms and large city properties at a lower rate than small farms and small city properties was revealed. To illustrate, farms selling for an average of $9,000 to $10,000 were assessed at 20 per cent or less of their sales price, while farms selling for an average of $2,000 to $3,000 were assessed at 50 to 70 per cent of their sales price. Likewise 1 to 20 per cent of farm rents, averaging about $800, was absorbed by taxes, whereas 50 to 80 per cent of farm rents averaging $250 to $350 was absorbed by taxes. A similar condition was found to exist in the case of city real estate, both as to assessments and rent.

The question naturally arises as to what should be done about such inequalities as those described. Admittedly they should be corrected in so far as is practicable. In this connection, and in view of the discussion which has gone before, the following possibilities are submitted for consideration:

1. Broaden the base of our general property tax so as to include a personal income tax to be substituted for taxes on intangible personal property, with the provision that the revenue derived therefrom be used in replacing an equal amount of general property taxes.

2. Require training specifically for the job of making assessments. At the same time protect those properly qualified with Civil Service rules permitting them to hold office so long as their services are efficiently rendered and needed. Central control by a state tax commissioner or commission should be helpful in coordinating efforts, standardizing methods throughout the state, and in equalizing assessments, especially between counties.

3. Place much greater emphasis on the technique of assessing individual properties. Specifically, this includes such important details as: (a) assessment at full market value or at least at some definite fraction of full market value, (b) the use of county soil maps where available to indicate the location and extent of major soil areas, (c) recognition of the earning capacity of property through the use of income data on representative farms and town properties, (d) the keeping of a complete record of current real estate sales, and (e) the maintenance of a complete card index for each piece of property in the county, both taxable and exempt. These are some of the more important devices which should place the job of assessing on a more systematic and scientific basis and be effective in achieving greater equity and justice in taxation.