

The Income Tax.

by

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In arguing for any special form of taxation we must always keep in mind that there is no exact science of taxation; that is, speaking in the sense in which we usually use the term science. We have the science of Exchange, science of Production, etc. all of which seem to have been established by nature; but a science of Taxation is something that has been invented by society and for that reason is very imperfect. Of course there are true principles of Taxation as related to Exchange; but from the obnoxiousness of the administration of any tax when it comes to practice, taxes so far are, and it seems likely for some time to come, will be very imperfect. The success of any tax depends so largely upon the conditions of the people taxed that no system founded on a general theory can be relied upon. But after all we recognize principles which ought to be observed. Adam Smith gives us four which are as follows: (1) "The subjects of every state ought to contribute to the support of the government, as nearly as possible in proportion to their re-

spective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state." (2)

"The tax to be paid by each individual should be certain and not arbitrary." (3) "The tax should be payable at the time and in the way most convenient to the taxpayer." (4) "The cost of collection should be as small as possible."

The tax which most directly accords with the first principle, is the one upon gross income. In fact, since Smith defines ability to pay as measured by the revenue which the citizen enjoys under the protection of the state, and as this revenue is neither more or less than his income, it follows that the income tax is the one indicated. Such a tax is levied by determining every man's income from all sources year by year, and requiring him to pay a certain percent into the public treasury.

From a theoretical stand-point, the Income Tax would be a perfect form of taxation. In fact there is no other tax that can stand the test of fairness,

equality, justice, etc, like the income tax; but when it is put into practice it is said that we meet with difficulty on every hand. Or as Mill says, "I fear that the fairness which belongs to the principle of an income tax cannot be made to attach to it in practice, and that this tax, while apparently the most just of all modes of raising revenue, is, in effect, more unjust than many others which are prima facie more objectionable."

Besides the complete harmony of an income tax with the general principles of taxation, as already unfolded, it has a grand advantage over all other forms of taxation in that it has no tendency to disturb prices. Were there no taxation except on incomes, and were the incomes rightly rendered, the prices of every thing would be just as if there were no taxes. It is through tricks wrought on prices that the greatest injustice is done and suffered in the world at present; a depreciated paper money, for example, raises

some prices and not others, and some prices before others, and thus distributes its mischiefs unequally; the "protective" tariff-taxes play fantastic tricks with prices, raising some and depressing others, thus working injustice.

Probably the best advantage of an income tax in this country would be the betterment of our financial system. As is well known, our chief reliance, at present, for money in our Treasury, is the custom duties. This is a very unsteady source. At times when business swells our imports, the Treasury is full and then when the tide turns it is empty. Both these conditions are destructive to the nation's best welfare. When the Treasury is full there is a surplus which is a more or less hindrance to the machinery of trade; because it is but a surplus that has been collected by taxation, and which should be circulating in the business channels. Now what we want is an elastic branch of taxation which can be relied upon to lower a surplus or fill up a deficit

at short notice, England, as is well known, meets the analogous difficulty by the adjustment of the income tax. Thus, the English Exchequer is managed with close calculations and small balances of cash. Whenever there is an unexpected change in the revenues or expenditures, there will be a correspondent change in the tax. From this fact the English government is enabled to borrow on short time because there will be returns within at least one year.

The principal objections to the practical administration of an Income Tax, however, are two in number; that it is oppressive and inquisitorial, and that it gives rise to a great deal of fraud. But after all a great many of these objections are sustained not so much by the general taxpayer as by dishonest politicians who advocate other theories probably from a personal interest. We must admit in regard to the first objections, that they are more or less true because all direct taxes have the dis-

advantage of any disguise. We cannot say for instance, of an Income Tax, like we can of the tariff taxes - that they are for the protection of our industries, or as of the Whisky tax - that it is for the abolition of liquors; but we must come above board and say, here is a certain percent of the income that must be paid for being governed.

The second objection, based on the amount of fraud to which the tax gives rise, is true only in a certain sense. It is probably true that the income tax tempts a greater number of people to evasions and concealments, and, in the present condition of our revenue service, makes a greater amount of concealment and evasion possible than any other. But in reality, it is doubtful whether the income tax would cause any more fraud, downright lying, cheating, and stealing than is practiced in the collection of our present custom-house, and other branches of internal revenue.

There is one consolation at least,

and that is, that the injustice of the income tax, comes not from the nature of the tax, but from the mode or means of collecting; while our present taxes are more objectionable from their very natures or principles.

From this it seems that what we want is better means of collecting. Now is this possible? It seems so. The real great cause of the failure of the income tax in this country is the failure of the assessors to perform their duty. Too much is left to the tax-payer himself and too little is done by the government. What we want ~~are~~ assessors, is men of unusual skill, sagacity, tact and judgment; and they should also be permanent officers, entirely devoted to their duties, and thoroughly acquainted with the people of their district. They should be competent, therefore, not only to detect discrepancies in returns, but to extract proper explanations of them. With such officers as these it is plain that as time went on, they would gather more and more in-

formation about the wealth of their districts and hence a great deal of the impracticability of the income tax would be eliminated,

We will now speak more particularly of the reception of the Income Tax in this country. As is generally known Income Tax was declared by the Supreme Court to be unconstitutional. Probably we can best get at the nature of this tax by giving in full the 27 Section of "an Act to reduce taxation, to provide revenue for the government, and for other purposes," approved August 24, 1894.

Sect. 27. "That from and after the first day of January, eighteen hundred and ninety-five, and until the first day of January, nineteen-hundred, there shall be assessed, levied, collected, and paid annually upon the gains, profits, and income received in the preceding calendar year by every citizen of the United States, whether residing at home or abroad and every person residing there in, whether said gains, pro-

fits, or income he derived from any kind of property, rents, interest, dividends, or salaries, or from any profession, trade, employment, or vocation carried on in the United States or elsewhere, or from any other source whatever, a tax of two per centum on the amount so derived over and above four thousand dollars; and a like tax shall be levied, collected, and paid annually upon the gains, profits or profession carried on in the United States, ~~and the tax~~ herein provided for shall be assessed by the Commissioner of Internal Revenue and collected and paid upon the gains, profits, and income for the year ending the thirty-first day of December next preceding the time for levying, collecting, and paying said tax."

The law of which this is a section is attacked on every ^{hand}. It is said that thirteen weeks was too short a time for considering such a law and that comparatively little attention has been given to the actual details of the bill as it passed the house. An examination of its text

shows that it is drawn with extraordinary looseness, one section after invalidating another, and that it invites at every turn evasion and false swearing, bribery, etc. And so they go on finding all possible inefficiencies of the law and, from all appearances, trying to use them as argument against the Income Tax as a whole. Such points as these we will not stop to consider or refute. The only points worthy of refutation are such as the constitutionality, justice, and practicability of the tax. Of its justice and practicability we have already spoken. We will now speak of its constitutionality.

Many claim that the income tax is an indirect tax; while others claim that it is a direct and therefore conflicts with Article I Sect. 2. of our Constitution, which states that, "Representatives and direct taxes shall be apportioned among the several states which may be included in this Union, according to their respective numbers." Now the question is— is the Income Tax a direct tax? It

has been decided by the Supreme Court that it is a direct tax and this ought to settle the question without further parley as to the wording of the Constitution. We do not believe that this view ought to be accepted because the Supreme Court is infallible; but because at the time when our Constitution was drawn, (and it is so at present), there was no strict demarcation between direct and indirect taxes, and at present no two countries agree in the matter, but each country makes the interpretation which best agrees with usage and convenience, France, for instance, calls import duties direct taxes, and Prussia calls the inheritance tax, an indirect tax. From what has been said it is plain that the only way to have an income tax in this country is to bring the matter square before the people and have the Constitution amended. Now as to the question of uniformity,

Article I sect. 8, of the Constitution reads, "The congress shall have power to lay and and collect taxes, duties,

imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties imposts and excises shall be uniform throughout the United States," Many claim that the word "uniform" in the previous section means absolute uniformity, that is, that the tax shall be levied at the same rate on the same articles and also that there shall be no territorial distinctions, Did the framers of the Constitution mean all this? It seems to me that all that can be taken from this term is that taxes, etc, should be uniform only as between the different States, We will remember that at the time of the framing of the Constitution, the States were exceedingly jealous of each other and were determined in all their deliberations that there should be no distinctions between State and State. One point that proves that territorial uniformity was all that the Constitution requires, is the fact that almost immediately after the Constitution was

adopted, in 1792, we have a tax of different percentage imposed on exactly the same class of whisky, the only difference was that one whisky was made in larger stills than the other. Of course the rate was the same in all states and no one has ever doubted the constitutionality of this act. This is the interpretation of the word "uniform" that most commentators of the Constitution make.

In this economic and bread seeking age, it seems to me that the greatest question that could come before a democratic people, is their method of taxation. Our present taxes are unjust from their very principles; the Income Tax is objectionable principally because the people have not been cultivated to such a system. Then what remains for us to do? It remains for us to teach the masses that there can be no justice in taxation, and hence no progress in social development, until the government knows the amount of revenue each person

enjoys. Then again the greatest draw back to day against any advance in Political Economy is the lack of proper statistics, because the people do not keep an account of their business. Hence the government runs its business in the same careless and loose way. Probably the greatest work of the twentieth century will be the establishment of the system of the Income Tax.