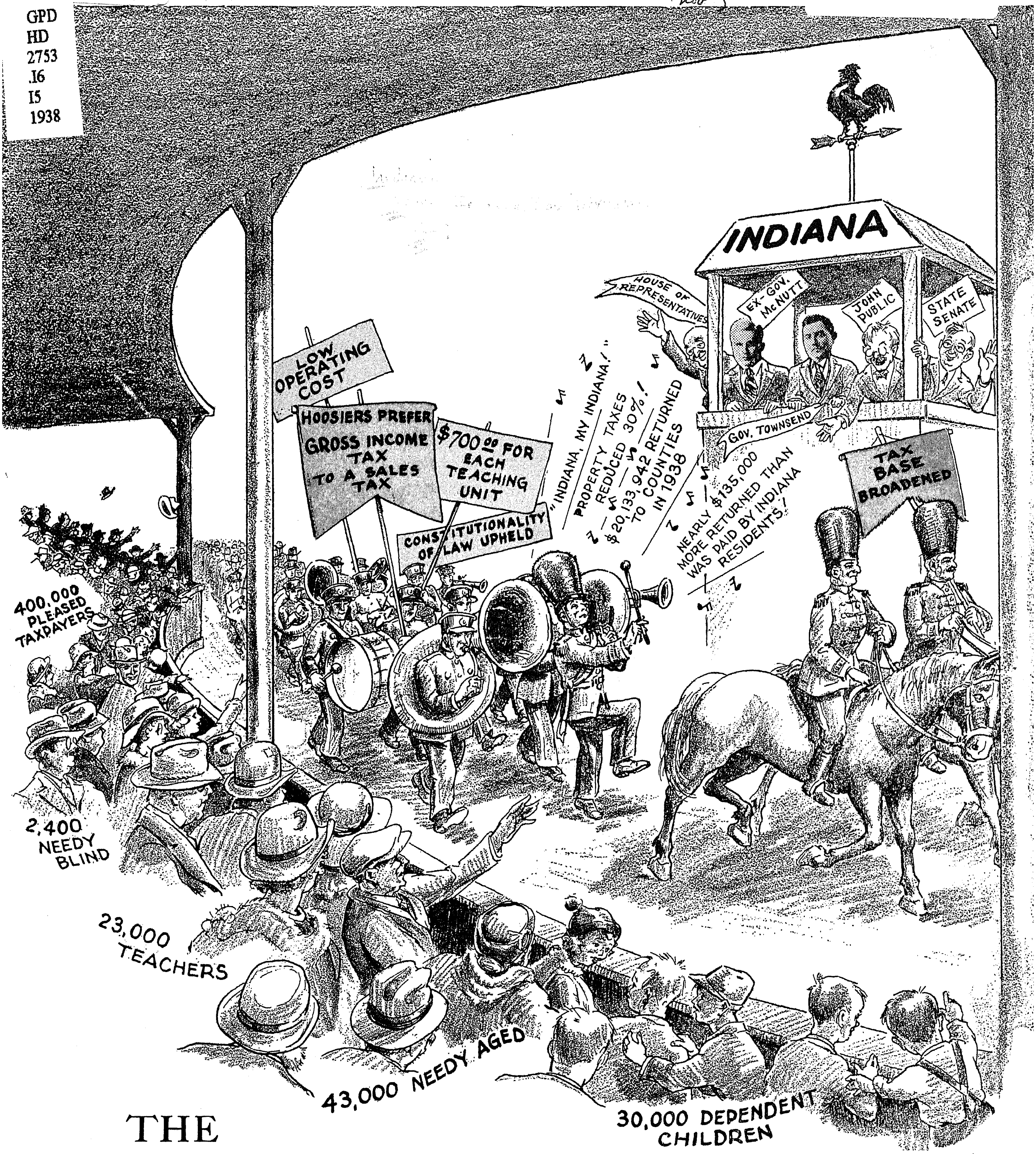
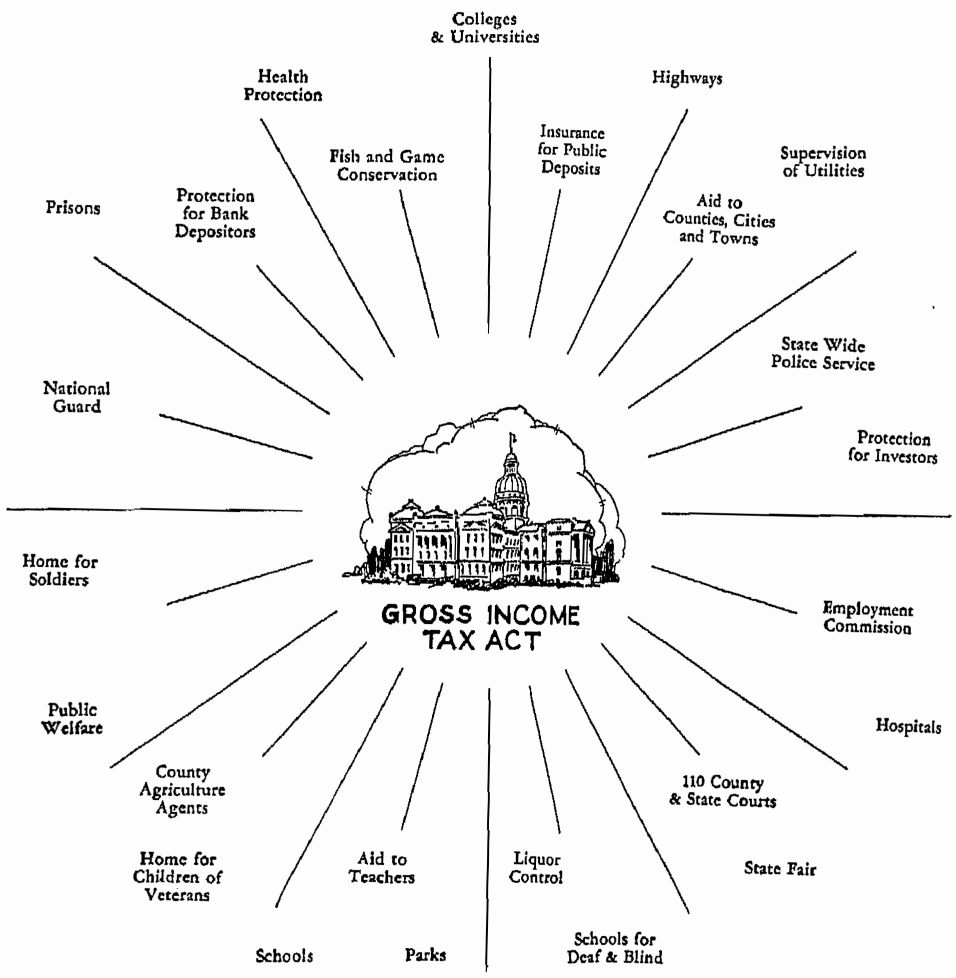


THE Gross Income Tax Passes In Review

THE

INDIANA GROSS INCOME TAX PASSES IN REVIEW

1933-1938



INDIANA'S NATIONALLY FAMOUS TAX LAW NOW RECOGNIZED AS PERMANENT AND INTEGRAL PART OF STATE TAX SYSTEM

Prepared by

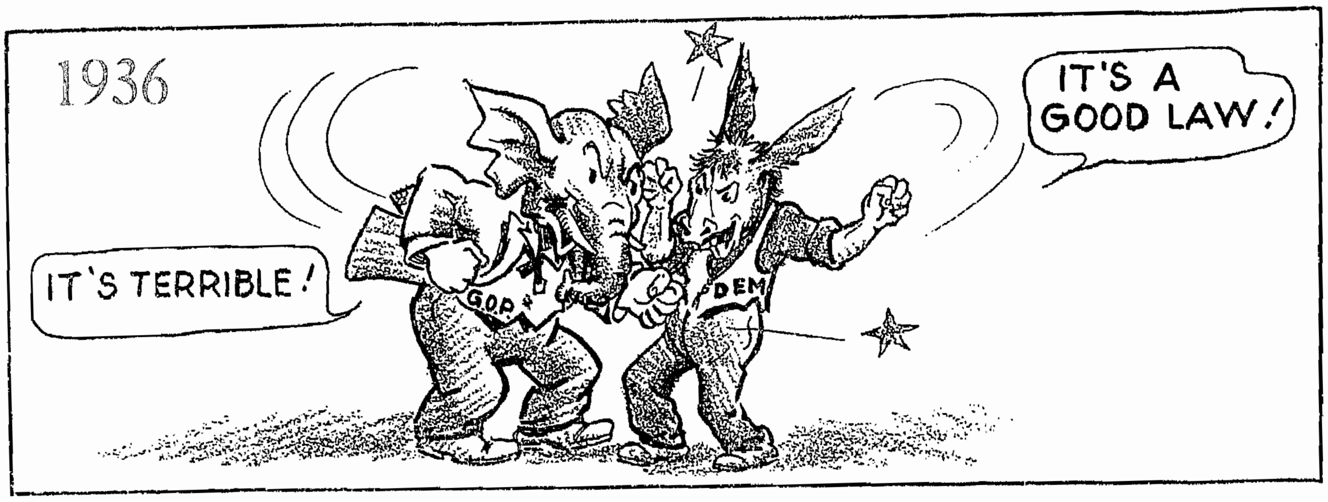
THE INDIANA GROSS INCOME TAX DIVISION

Department of Treasury

141 SOUTH MERIDIAN, INDIANAPOLIS, INDIANA

1938

AUGUST, SEPTEMBER, AND OCTOBER ISSUES OF GROSS INCOME TAX AND STORE LICENSE DIGEST COMBINED



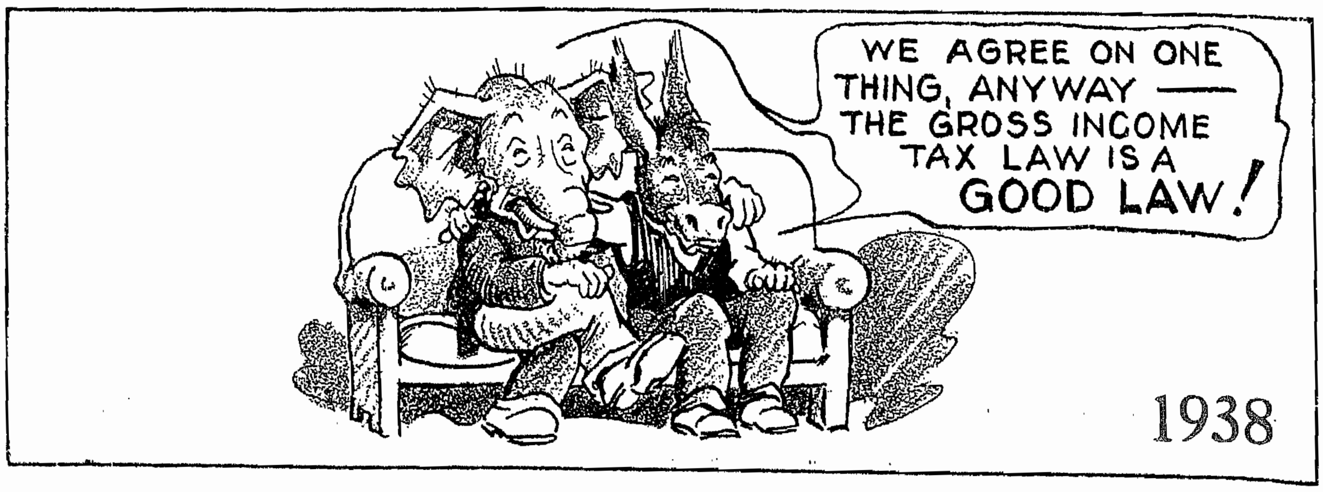
REPUBLICAN PLATFORM: ". . . *We pledge the immediate repeal* of the present gross income tax law and in lieu thereof we pledge the enactment of a *net income tax law* to be *supplemented by such other equitable* taxes as will not further burden real estate . . ."

DEMOCRATIC PLATFORM: ". . . The return of prosperity to the nation and Indiana under the Democratic administration, permits one more step toward the reduction of local property tax and we therefore now pledge to distribute to local schools, for teachers' salaries, all money collected from the gross income tax up to an amount that will guarantee $600.00 for each teaching unit.

"The gross income tax law is now in its fourth year of operation. It has broadened the tax base and has materially helped to reduce property taxes. As with all tax laws certain classes and groups feel that they are more seriously affected than others. *We favor the retention of the gross income* tax and recommend that legislation be passed to correct any existing inequalities in the law."

REPUBLICAN PLATFORM: ". . . The collection of *our* gross income tax has resulted in a huge surplus in the state treasury and we favor *a reduction of said tax* to the amount actually needed . . ."

DEMOCRATIC PLATFORM: ". . . We reaffirm our faith in the gross income tax law and pledge to resist any effort to substitute for it a sales tax which would place an unreasonable burden upon those least able to carry it. It is obvious to all who have honestly examined the needs of local and state government that Indiana must either have a gross income tax that will produce the necessary revenue or else re-establish an unbearable burden upon real estate. We recognize that, in a revenue-producing measure such as the gross income tax law, there is an opportunity for flexibility. Changes can be made with little inconvenience to *reduce the amount that the law* is producing *or* to *provide for a larger distribution to the units of local government, thereby reducing local property taxes.*"



DIRECTOR'S PAGE

"For the law is naught but words
save as the law is administered"—
Chief Justice Hughes

No Longer a Political Issue

The gross income tax no longer is a political issue. It has joined the ranks of the intangibles tax, the property tax, the Social Security Program, the Conservation and Public Instruction Departments, and many other non-controversial features of the state government. It is now an accepted part of our state government. It is now an accepted part of our state fiscal structure and the largest contributor to the state general fund.

In our opinion, from now on attention will be directed to the gross income tax (and properly so) from the following angles:

1. Is the administration of the tax equitable to all? Is it energetic and honest?
2. Is the money collected being used as replacement taxes in local units of government?
3. As in all other taxes, various groups will try to secure group advantages, through legislative action.

Point one is the business of the Governor and the Department of Treasury. They should see that the Gross Income Tax Division staff earns the approval of the public as to doing a good job.

Points two and three are not the business of the Gross Income Tax Division, except to supply statistics and other facts and opinions when asked.

We, the members of the Gross Income Tax Division, have always had the viewpoint that we are working for the taxpayer. Our job is to help him do what he wants to do—namely, be a good citizen and pay his share as the Law prescribes. The taxpayer rightfully insists that the Gross Income Tax Division act as umpire to see that his neighbor or competitor also pays his share.

Our job is to explain:

1. Why we have a gross income tax.
2. What it was designed to do, and how well it is doing it.
3. What kind of a revenue measure could be substituted for it, and the good and bad points of such a measure.

This issue of THE DIGEST, "The Gross Income Tax Passes In Review," is dedicated to the three purposes outlined above.

Clarence A. Jackson

Let's Look at the Record!

With the many new services of the State so evident and with "tax consciousness" increased as it is, even those closely in touch with state fiscal affairs are apt to let partisan cries of "Higher taxes!" go unchallenged.

But, IT IS A MATTER OF PUBLIC RECORD that: The average of the *total taxes* collected *by all the taxing units in the State* during the period 1928-1932 was *$162,000,000 a year*. The average of the *total taxes* collected *by all the taxing units of the State* during the period 1933-1937 was *$138,-000,000 a year*. In other words, since the reorganization of the state government in 1933 the total tax bill in the State has been on an average of *$24,000,000 a year less* than it was during the preceding administration.

There have been many cries about "higher property taxes" and accusations that the gross income tax has not served as a replacement tax. But, IT IS A MATTER OF PUBLIC RECORD that: The average of property taxes alone for the period of 1928-1932 was $139,000,000 a year. The average of property taxes *plus* gross income taxes for the period 1933-1937 was $108,000,000 a year. Thus, the citizens of Indiana paid $31,000,000 a year more in property taxes alone before the passage of the Gross Income Tax Act than they have paid in property taxes *plus* gross income taxes since the enactment of the tax.

Some might point out that there were two other "replacement" taxes—the excise and intangibles taxes. All right: The total of the excise and intangibles tax collections from 1932 to the end of the fiscal year 1936-1937 was $19,776,416.42. Take that amount from *one year's saving of $31,000,000* and you have left more than a $11,000,000 saving for that year and $31,000,000 a year thereafter. THE REPLACEMENT TAX PROGRAM HAS SUCCEEDED. It has broadened the tax base and reduced property taxes and the total tax load.

The Gross Income Tax and the Taxes and Fees on Motor Vehicles Account for Over Seventy Per Cent of the State Government's Receipts of Fees and Taxes.

"Of all sad words of tongue or pen
The saddest are these—pay your tax again."

No pageant with colorful floats and winsome girls has passed, no bands have assembled to play "Happy Days Are Here Again," and no testimonial banquets have been given, but the Indiana Gross Income Tax Act is entering its sixth school year and the doors of every public institution of learning swing wide because of it.

The story is one of accomplishment in the comforting field of black ink instead of red. It is a review of definite reductions in property tax in every county of the State; it is the inspiring spectacle of nearly a half-million taxpayers, a vast majority of whom concede the fairness of this Act and recognize that it operates on the basis of "ability to pay"; it is the triumph of an honest, square-shooting tax law now the envy of Indiana's sister states.

The law has attained the goals its originators and friends designed for it. Our school system was one of three state systems in the Union to continue during the depression; our teachers are paid; the credit of the State is good; we have participated in the Public Welfare Program 100 per cent; the State has a surplus in the treasury; and PROPERTY TAXES ARE LOWER.

Despite the increased demands for service, the property tax levies in Indiana for 1938 are $39,375,952 lower than they were in 1932, due to local units benefiting from state distributions. The facts can be checked by anyone from the abstracts of property tax levies for the year 1932 and for the year 1938 which are on file in the office of the State Auditor. They show the following comparison:

	1932	1938	Reduction
TOTAL PROPERTY TAX	$140,069,640	$100,693,688	$39,375,952
TOTAL SCHOOL LEVY	$ 49,322,397	$ 30,749,094	$18,573,303
STATE LEVY (common school relief, teachers' retirement, bd. of agri., state forestry, educational improve., and Wolf Lake Park	15,508,574	6,591,353	8,917,221

In Every County in Indiana the Total Property Tax Bill for 1938 Is Lower than It Was in 1932.

An Educator Saves the Schools

Laws are man-made, and success or failure hinges on the soundness of the convictions of the lawmakers and the accuracy with which they have gauged the will of the people.

No review of the eventful years which have marked the life of the Gross Income Tax Act would be complete without an appraisal of the contribution made by former Governor Paul V. McNutt, an educator, who said: "The building of roads can wait for better times, but the education of our children must not, will not be interrupted in Indiana!"

PAUL V. MCNUTT

The revision of a state's tax structure takes courage transcending political expediency. It is far easier to "let a sleeping dog lie." But conditions in 1933 called for intelligent action and a workable plan.

In 1933 Paul V. McNutt brought the mind of a student as well as the administrative ability of a born leader to the Governor's chair. Retail sales taxes, net income taxes, and nuisance taxes embracing everything from frog-jumping contests to oleomargarine and slot-machines were sweeping the nation. It would have been easy to have drafted an emergency measure designed to extract enough revenue to keep government functioning until national business recovery was under way again.

From a purely political standpoint it would have been simple to pass enough of the above type of laws and then make political capital at a later date by repeal or modification until the burden of government again rested on the shoulders of the property owners. But the Gross Income Tax Act was designed to come to grips with a fundamental evil in the old Indiana tax system—one that had been recognized by serious students of government of all political faiths for several years. The tax base had to be broadened. As an educator, Paul V. McNutt could appreciate the cultural deficit as well as the business loss bound to result from closed schools; as a lawyer he was convinced of the constitutionality of the measure, and as a practical business executive he was convinced of the fairness of its principle of taxation.

Gross Income Tax Funds Provide 33 Cents Out of Every Dollar Spent for Operating Expenses of Indiana Schools.

A Schoolman Carries On

The background of the man who became Governor of Indiana in 1937 could hardly have been more fortunate had he deliberately trained for the job of championing the Gross Income Tax Act. As a schoolman he was familiar with the problems of the Indiana educational system; as a farmer he could appreciate the value of the reduction which had been made in property taxes; and as the Lieutenant-Governor for four years he had an intimate and up-to-date knowledge of the workings of this new measure.

Gov. Townsend

M. Clifford Townsend went into office after a campaign in which politically inspired objectors had based their hope of election on the out-and-out promise to repeal the Gross Income Tax Act. The debate was bitter and partisan. Candidate Townsend faced the issue squarely and told the taxpayers the truth about needs of their government and the superiority of the gross income tax over retail sales tax, net income tax, and nuisance tax measures. That the people agreed is evidenced by the large majority of votes he received.

Governor Townsend has conscientiously and consistently opposed all efforts to destroy the law's basic principles but gave valuable assistance in the plans for modification which were made by the 1937 State Legislature. In a business-like manner the changes were formulated in the light of practical experience. Application of the ¼ of 1 per cent rate was clarified; the rate of tax was fixed by law as being based on the source of income rather than the occupation of the taxpayer; and more effective means were provided to collect from out-of-state residents with income from Indiana. The amended law also provided that labor unions, churches and their denominational schools, colleges and monasteries, public schools and colleges not operated for profit, remain exempt on all income.

As a companion measure to the Gross Income Tax Act amendments, although not directly connected with them, Governor Townsend sponsored the law to set a minimum distribution of $700 per year for each teaching unit in Indiana.

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Funds from the Gross Income Tax Provided $700 toward the Payment of the Salaries of Nearly 20,000 Teachers in 1938.

The First Treasury Board

FLOYD WILLIAMSON, *Auditor* GOV. PAUL McNUTT WILLIAM STOREN, *Treasurer*

The Gross Income Tax Act passed by the Legislature of 1933 made the State a "collection agency" for the local units of government over night. The gross income tax was placed in the Department of Treasury for administration, and the job of absorbing this new tax law and the multifold problems it presented rested largely with the Treasury Board, of which the State Treasurer is made by law the chief administrative officer. The ease and rapidity with which the law became a part of the existing governmental structure is largely attributable to the constructive work of the first Board.

Floyd Williamson was elected Auditor of State in 1930 and was re-elected in 1932. Floyd, a native of Sheridan, Indiana, but who has resided in Indianapolis most of his life, brought to the State Auditor's office a background of public service and business experience. Before his election as State Auditor, he was principal of School No. 72 in Indianapolis, President of the Hoosier Educational Service Inc., and State Manager for the Provident Life Insurance Company. Since his retirement from the State Auditor's office, Mr. Williamson has been Vice-President of the Standard Life Insurance Company of Indianapolis, which he helped to organize several years ago.

MR. WILLIAMSON

Bill Storen was elected to the Legislature from Scott County and served in the 1927 and 1929 sessions. He was a member of the State Budget Committee. Back home in Scottsburg, he was Cashier of the Scott County State Bank. In 1930, he was elected Treasurer of State and was re-elected in 1932. He also served for four years as Treasurer of the State Democratic Committee. At present, he is a member of the Board of Trustees of the Central Insane Hospital and Vice-President of the Security Trust Company of Indianapolis.

MR. STOREN

Non-Resident Taxpayers Pay More Gross Income Tax Than the Residents of Any One County in Indiana except Marion. This Income Could Not Be Taxed Under Any Other Type of Law.

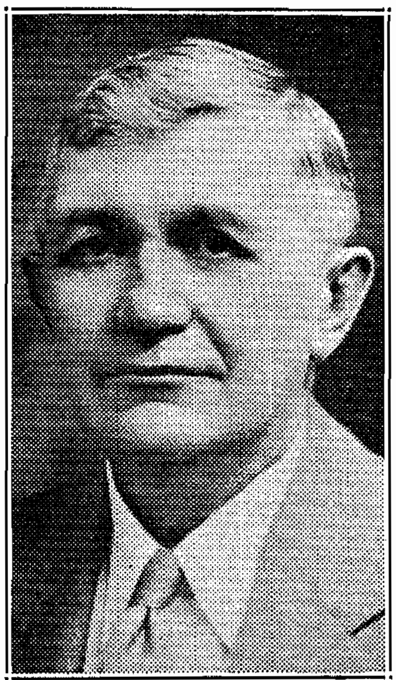
The Present Treasury Board

LAWRENCE SULLIVAN, *Auditor* GOV. M. CLIFFORD TOWNSEND PETER HEIN, *Treasurer*

Mr. Lawrence Sullivan and Mr. Peter Hein began their first terms in 1934 and promptly took over the duties of assisting Governor McNutt during the last two years of his administration. In 1936, their re-election and the election of Governor Townsend established the membership of the Treasury Board which has handled day by day financial problems of the State for nearly two years. They have assisted in the administration of the Gross Income Tax Act in every way possible.

Mr. Sullivan's experience as a public official, banker, farmer and business man has enabled him to effect substantial economies, modernize the bookkeeping, and make his office a more efficient safe-guard of public money. He served as Deputy State Auditor during 1933. Mr. Sullivan is a resident of Princeton and for 12 years was vice-president of the People's American National Bank of that city.

MR. SULLIVAN



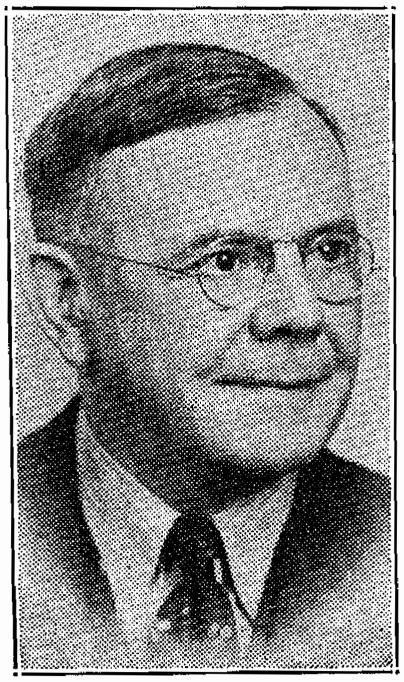
Mr. Hein is a resident of Crown Point, where for many years he has been an influential citizen and business man. His interest in civic affairs led him to accept the District Chairmanship of the Governor's Commission on Unemployment Relief in 1933. He has served as postmaster at Crown Point, Cashier of the Crown Point Commercial Bank, and Secretary of the Crown Point Building, Loan and Savings Association. The operation of his office reflects the good business judgment of the State Treasurer.

MR. HEIN

Gross Income Tax Funds Allowed the State to Match the County Units of Government Dollar-for-Dollar on Welfare Costs in 1938.

Three Aides in Organization

The organization of a department of government such as the Gross Income Tax Division is a complicated job, and without the valuable assistance of Mr. Frank Finney, Commissioner of the Bureau of Motor Vehicles; Mr. E. P. Brennan, Director of the Budget; and Mr. W. P. Cosgrove, State Examiner of the Division of Accounting and Statistics, the difficulties attending the launching of the Gross Income Tax Division would have been infinitely greater.



MR. FINNEY

MR. BRENNAN

MR. COSGROVE

Mr. Brennan was assigned to the Division early in 1933 as a representative of the State Board of Accounts to have charge of setting up the accounting system and internal machinery so it would conform with all state laws and regulations governing the receipt and disbursement of money by a department of the state government. Much credit for the present smooth-running organization that handles a half-million accounts yearly may be attributed to the contribution made by Mr. Brennan, who has been in the service of the State for 25 years and is now State Budget Director.

Arrangements were made through Mr. Cosgrove during the July and October taxpaying periods of 1933 so that representatives of the State Board of Accounts were stationed in the auto license branches of the larger cities and towns of the State. These men gave valuable and expert advice to taxpayers filing returns for the first time. Mr. Cosgrove and his staff have continued to render valuable service in ironing out problems of administration of the law.

One of the most serious problems confronting the Division in 1933 was how to get forms and information to a vast number of unknown taxpayers. It was solved by the able cooperation of Mr. Frank Finney through the 150 auto license branches under his direction. A vast economy was effected and the public was and is given daily service by competent people. Mr. Finney and his staff have taken on the gross income tax responsibility as an additional public service without any remuneration from the State, and are doing an excellent job.

During the Fiscal Year 1936-37, 5.5c of the "State House $1" Went for the Support of State Colleges and Universities.

The State Surplus

The gross income tax has been largely responsible for the gradual accumulation of the 24 million dollar surplus in the state treasury. This surplus was allowed to accumulate *deliberately* as a good governmental and business project. State officials knew that the federal and state cooperative Social Security Program would call for an increasing sum each year. The judgment of Governor McNutt and Governor Townsend in permitting this surplus to gradually accumulate has been vindicated.

Indiana has adopted 100 per cent of the federal and state Social Security Program without adding any new taxes or increasing the rates of any old ones.

Since Indiana under its constitution cannot issue bonds, the State either must have a reasonable surplus in the treasury to provide for governmental emergencies or be prepared for immediate enactment of special taxes or increased rates on present taxes to take care of unexpected governmental functions. This latter alternative has not been necessary under the last two Democratic administrations in Indiana.

Not only has the gross income tax enabled the State to absorb the gradual increase in social security costs, including the reduction of the age limit from 70 to 65 this year, which will increase the old age benefit payments some 2 million dollars to an approximate total of 8½ million, but, during the Special Session just closed, an additional two million dollars was returned to the counties this year to aid them further in their local social security and poor relief costs, which, of course, will be reflected in lower property taxes than otherwise would have been possible. In addition to this, some 6 million dollars was appropriated which, matched with the federal funds, will mean some 10 million dollars for the improvement and enlargement of many Indiana benevolent institutions.

The 10 Million Dollars Worth of "New Business" Made Possible by Prompt State Action is Itemized Below. The Amounts Given are the Total Construction Costs.

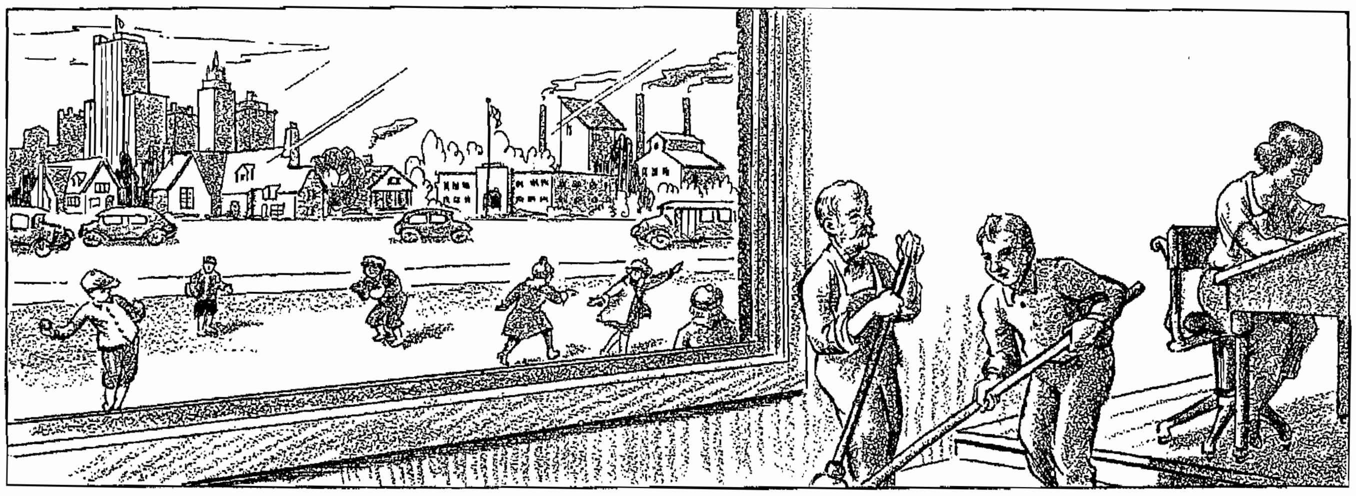
SCHOOLS	
Indiana University	$1,000,000
Purdue University	$1,000,000
Ball State Teachers	$ 428,333
Indiana State Teachers	$ 424,666
Deaf School	$ 50,000
ARMORIES	
Indianapolis	$ 150,000
Spencer	$ 85,000
Attica	$ 85,000
CONTINGENCY FUND	
For Entire Program	$300,000
INSTITUTIONS	
Women's Prison	$314,404
Boys' School	$833,331
Girls' School	$150,000

HOSPITALS	
Central State	$553,240
Logansport State	$765,000
Evansville State	$193,000
Richmond State	$200,000
Muscatatuck Colony	$2,297,000
Epileptic Village	$225,023
Tuberculosis	$650,000
STATE PROPERTY	
4-H Club Building	$500,000
Walks, Drives and Landscaping	$ 50,000
State Board of Health Building	$322,000

One Person Out of Every Seven in Indiana Filed a Gross Income Tax Return During 1937.

Education is a Business

The statement, "Funds from the gross income tax have stabilized the Indiana school system," does not mean a great deal until one looks at education in the light of a business. For the business of serving an average daily attendance of more than 650,000 students, of employing over 35,000 teachers, administrators, janitors, engineers and bus drivers with a total outlay of about 50 million dollars a year, is "big business." Expenditures for schools are the greatest single classification of government expense in Indiana.



Commencement orators have convinced most people that "readin', writin' and 'rithmetic" are fine things, but the actual dollars and cents utility of good schools in making real estate more valuable and in creating business activity often escapes the average citizen. Such things are taken for granted.

As can be noted from the comparison of property tax levies, it was necessary for property owners to raise $49,322,397 for the tuition and special school levies alone in 1932. The same levies for 1938 were only $30,749,094. This large a reduction was possible because gross income tax distributions for 1938 were made on the new scale of $700 per teaching unit and totalled $13,913,550. The $700 per teaching unit in 1938 compares with $500 in 1937, $425 in 1936, $400 in 1935 and $404.36 in 1934.

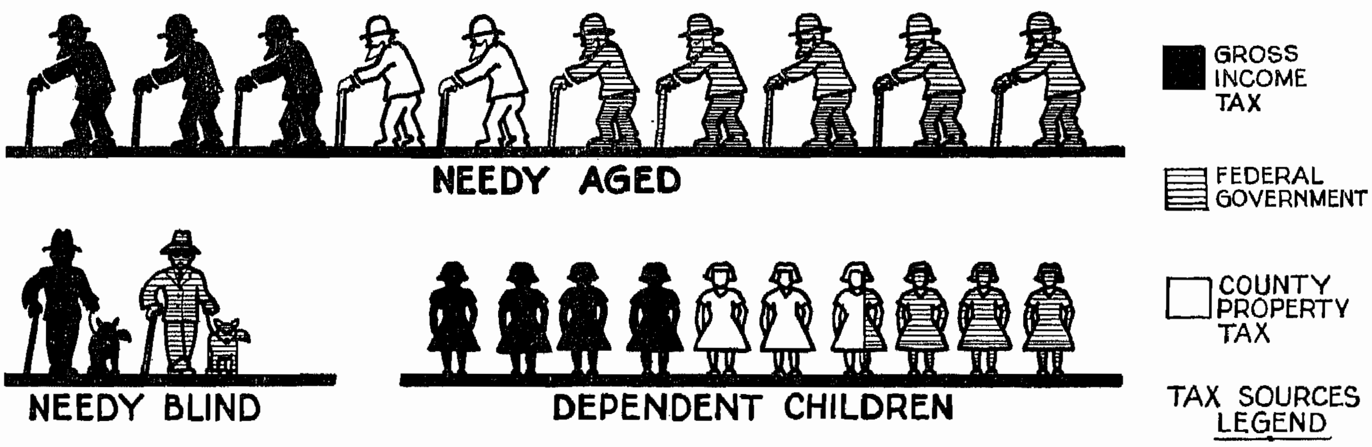
Another point which escapes the casual student of government is that the Indiana State Constitution places the responsibility of a "general and uniform system of common schools" on the Legislature. It is therefore a *state* responsibility to see that schools are open to all children in all parts of the State. This duty was clearly defined by a decision of the Indiana Supreme Court in 1885.

The Gross Income Tax Is by far the Largest Contributor to the State General Fund.

Indiana Has Public Welfare 100%

State participation in the cost of the public welfare program of the federal Social Security Act (old-age assistance, formerly called old-age pensions, aid to dependent children and aid to needy blind) is not only desirable from a standpoint of distributing the tax burden, but it is *necessary* if the State is to share in federal grants. The collection of gross income tax has enabled Indiana to participate 100 per cent and to avail itself of the maximum in federal assistance.

The State Welfare Act adopted by the 1936 special session of the Legislature provided that for old-age assistance the State should pay 30 per cent and the counties 20 per cent; for aid to dependent children, the State 40 per cent and the counties 27 per cent; and for assistance to the blind, the State 50 per cent and the counties none. Against this the Federal Government then gives 50 per cent of total old-age assistance up to $30 per month, 33 per cent for aid to dependent children, and 50 per cent for aid to the blind.



On July 1, 1938, the minimum age at which needy persons may obtain old-age assistance in Indiana dropped from 70 to 65 years. The present estimate of the resulting increase in cost is $2,000,000 per year. To enable the counties to meet this increase during 1939, the special session of the Legislature which met in July 1938, provided that, in addition to the above amounts, the State would make an additional grant of 30 per cent of the county cost in excess of a 5-cent levy for welfare purposes.

An indication of the manner in which gross income tax funds are meeting this growing demand is found in a comparison of the distributions which have been made to the 93 county departments of public welfare. In 1937 the total was $4,053,174.73; in 1938 it was $6,220,392.20; and in 1939 it is expected to reach $8,500,000.

Indiana Has Financed Her Public Welfare Program Without the Addition of any New Taxes.

Hoosier Farm Taxes Drop

The fact-finding Indiana Tax Study Commission, of which Professor Presly Sikes is the executive secretary, has reported that taxes paid by the Indiana farmer dropped from 20.4 per cent of his income in 1932 to 4.3 per cent of his income in 1936. Commenting on the fact that property tax as a source of government revenue dropped from 86 per cent in 1924 to 58 per cent in 1936, Prof. Sikes said that the trend toward a wider tax base provides steady income for government and places taxation on an ability-to-pay basis.

In its analysis of farm income, investment and taxes, the Commission found there were 225,000 farm family units in Indiana and that the average farmer's income is $1,240.92, the average investment $6,800, and the total expense $1,016.

A study of 772 farms with income above the general average shows that in 1929 when the gross income average for the 772 farms was $4,802, the average tax payment was $396. That year there was a profit to the farmer of $1,091. But, in 1931, the gross income had dropped to $1,995 while taxes had dropped only to $391. The farmer actually lost $875 that year. Not until 1933 did tax payments drop materially, the Commission said.

"By spreading the tax base, the state has reduced the direct tax load on agriculture about 35 per cent," the Commission reported. It revealed that the farmer's taxes in proportion to his investment were heaviest during 1932. The table of percentages shows the following:

1929	1.56%	1933	1.43%
1930	1.74%	1934	1.37%
1931	1.93%	1935	1.22%
1932	2.15%	1936	1.26%

"These figures indicated," the report states, "that relative to investment the heaviest taxes were levied in 1932, when farmers were least able to bear them. There would be a greater spread between the percentages between 1929 and the more recent years, were it not for the fact that valuation figures have gone down considerably in the meantime. A tax base of $100 in 1929 would be only $72 in 1936.

"Exactly half the regions have tax burdens below the average for the state, while half are above the average," the Commission reported. "This indicates that attention should be given to the problem of equalizing taxes among the different sections of the state rather than considering farm taxation a single state matter."

The Retail Merchant Doing $500.00-a-Week Business Pays About 61 Cents a Day Gross Income Tax.

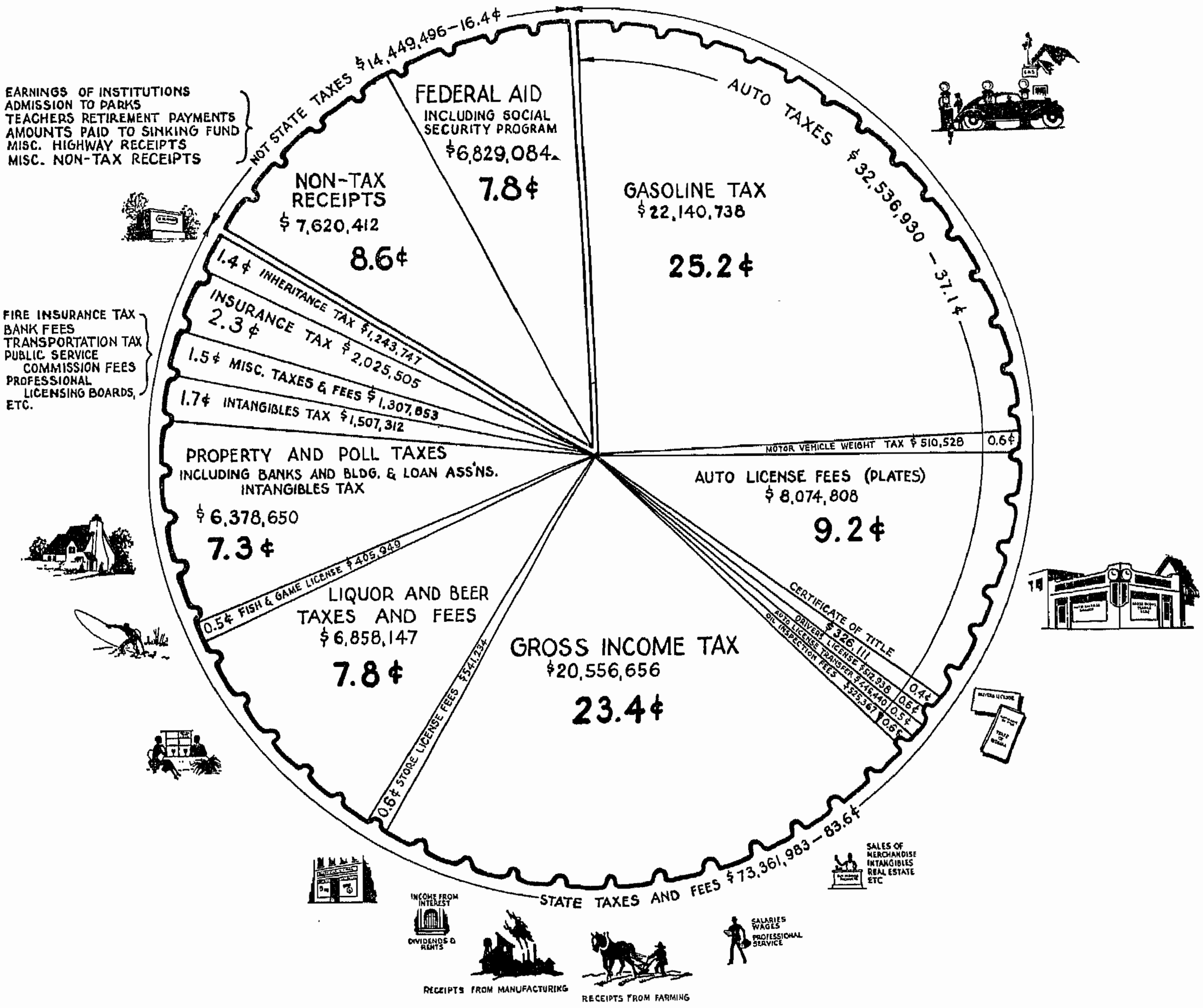
Gross Income Tax in the State Picture

In the general revision of the Indiana tax system which was made by the 1933 State Legislature, the gross income tax became the key-stone of a new tax structure which would broaden the tax base and insure the continuance of the normal functions of government by distributing the tax load in a more equitable manner.

The "State House Dollar" (reproduced from the booklet *Indiana & Co.)* illustrates the role the gross income tax plays in obtaining revenue for the State. The chart shows the extent and relation of each tax source for the fiscal year July 1, 1936, to June 30, 1937. The statistics were compiled from the annual report of the Auditor of State.

It is a far different picture from the "State House Dollar" of 1932, the last year before the passage of the gross income tax, the intangibles stamp tax, the excise tax, and the beginning of operation of the property tax limitation law. The state property tax levy for 1932 was more than 2½ times the amount indicated below.

The latest figures available on gross income tax collections are for the fiscal year ending June 30, 1938, and show a total of $22,339,541.47.



On the Basis of the 1930 Census the Gross Income Tax Amounted to a Per Capita Tax of $7.09 During 1937.

Salary Reports Hit New High

During 1937, a total of 349,824 taxpayers paid gross income taxes averaging $9.63 on reported salaries, wages and commissions. (See following page for analysis of tax revenues by income groups for the calendar year ending December 31, 1937.)

Income of this type reached a new high with a total of $686,551.093 reported, an increase of $148,464,477 over the 1936 total of $538,086,616. Since each taxpayer is allowed an exemption of $1,000 per year, it is interesting to note that this provision exempted $349,824,000, *more than half the* total income reported from salaries, wages and commissions.

Classification of taxpayers according to income reveals the $1,000 to $1,500 per year group had the largest number, and their reported income totalled $195,559,477, but, due to exemptions, they were taxable on only $37,593,477. The $1,500 to $2,000 per year bracket with 98,092 taxpayers reported income of $168,852,749 and was taxable on $70,760,749. (See table on following page.) Every income group showed a definite increase over the previous year and more than 30,000 additional accounts were found in the $1,500 to $3,000 per year brackets. (See table below.) Analysis shows that the "over $20,000" group paid 6.25 per cent of the $3,367,270.93 in tax collected from salaries, wages and commissions in 1937. That the $1,000 to $1,500 per year group with over 200 times as many taxpayers and nine times as much income paid only 11.16 per cent of the tax collected from this source demonstrates the manner in which the gross income tax graduates its toll on the basis of ability to pay. (See table on following page.)

Comparative Analysis

INCOME GROUP	NO. TAXPAYERS	AMT. REPORTED
1936 Under $1,000	14,177	$6,981,727
1937 Under $1,000	16,602	$8,132,929
'36 $1,001 to $1,499	135,285	$167,691,046
'37 $1,001 to $1,499	157,966	$195,559,477
'36 $1,500 to $1,999	78,280	$133,851,776
'37 $1,500 to $1,999	98,092	$168,852,749
'36 $2,000 to $2,499	30,517	$67,538,053
'37 $2,000 to $2,499	45,280	$100,187,095
'36 $2,500 to $2,999	13,105	$35,598,549
'37 $2,500 to $2,999	18,552	$50,319,037
'36 $3,000 to $4,999	15,499	$56,628,339
'37 $3,000 to $4,999	20,027	$73,353,928
'36 $5,000 to $7,499	4,084	$24,451,044
'37 $5,000 to $7,499	5,119	$30,609,213
'36 $7,500 to $9,999	1,541	$13,151,015
'37 $7,500 to $9,999	1,885	$16,062,402
'36 $10,000 to $19,999	1,794	$23,890,145
'37 $10,000 to $19,999	2,240	$29,884,897
'36 $20,000 and over	498	$15,286,649
'37 $20,000 and over	663	$21,722,295
TOTAL LESS UNDER $1,000 GROUP		
'36	280,553	$538,086,616
'37	349,824	$686,551,093

The Amount of Property Taxes Contributed for School Operating Costs in Indiana in 1938 Was $18,573,303 Less Than the Amount Contributed for the Same Purpose in 1932.

ANALYSIS

Salaries, Wages and Commissions Reported on Gross Income Tax Returns for the Calendar Year 1937 -- Classified According to Income Groups*

Prepared by Indiana Gross Income Tax Division
C. A. JACKSON, *Director*

Income Group	No. of Taxpayers	Salaries, Wages and Commissions Reported	Amount of Exemption	Taxable Income	Tax Paid	Average Tax Per Taxpayer
Under $1,000	16,602	$ 8,132,929	$ **	$ **	$ **	$ **
$1,001 to $1,499	157,966	195,559,477	157,966,000	37,593,477	375,924.77	2.38
$1,500 to $1,999	98,092	168,852,749	98,092,000	70,760,749	707,607.49	7.21
$2,000 to $2,499	45,280	100,187,095	45,280,000	54,907,095	549,070.95	12.13
$2,500 to $2,999	18,552	50,319,037	18,552,000	31,767,037	317,670.37	17.12
$3,000 to $4,999	20,027	73,353,928	20,027,000	53,326,928	533,269.28	26.63
$5,000 to $7,499	5,119	30,609,213	5,119,000	25,490,213	254,902.13	49.80
$7,500 to $9,999	1,885	16,062,402	1,885,000	14,177,402	141,774.02	75.21
$10,000 to $19,999	2,240	29,884,897	2,240,000	27,644,897	276,448.97	123.41
$20,000 and over	663	21,722,295	663,000	21,059,295	210,592.95	317.64
Total Less Under $1,000 Group	349,824	$686,551,093	$349,824,000	$336,727,093	$3,367,270.93	$ 9.63

* This report covers only taxpayers reporting income from salaries, wages, and commissions. Income of these taxpayers from any other sources is not included in the tabulation. The total number of taxpayers of all kinds filing 1937 annual returns was 366,426.

** Persons earning less than 1,000 in salaries, wages, and commissions had income from other sources or they would not have filed gross income tax returns. The exemptions of $1,000 for each of these taxpayers would more than cover their income from salaries, wages, and commissions. Therefore, no figures on tax payments can be given in this class on this report.

Figures as to tax payments in other groups have been arrived at by deducting the $1,000 exemption for each taxpayer and computing tax at 1%, the gross income tax rate on income from salaries, wages, and commissions.

During 1937, 17,279 Citizens and Corporations of Other States Filed Gross Income Tax Returns in Indiana.

Reported Income Exceeds 3½ Billion Dollars

A statistical analysis of the Indiana gross income tax revenue for the calendar year 1937 shows 472,588 taxpayers reported income totalling $3,607,885,399.

Computed on the basis of the 1930 census, the yield of $22,959,429.67 was a per capita tax of $7.09. One person out of every seven in Indiana filed a return during the past calendar year. The statistics relating to taxpayers' receipts illustrate in concrete terms what is meant by "spreading the tax base." The $694,684,022 *total* income from salaries, wages, and commissions, the $71,416,673 from the sale of property, the $214,618,270 for interest, rents and royalties, and the $49,359,290 of miscellaneous receipts, for the most part represent income which enjoys all of the protective benefits of government and which made no direct contribution to local governmental costs prior to the enactment of the Gross Income Tax Act.

For the proper and equitable administration of the Gross Income Tax law, it is necessary to keep certain statistical records. This information is being kept with a punch card system which is accurate, inexpensive, and particularly adapted to a large volume of business. The "recovery march" shown below reflects the substantial increases in income in Indiana since the dark days of the depression.

The Recovery March

TOTAL RECEIPTS REPORTED	
1937	$3,672,885,399
1936	$3,056,743,277
1935	$2,440,728,902
1934	$1,958,079,690
1933 (8 mos.)	$1,286,958,795

NUMBER OF TAXPAYERS	
1937	472,588
1936	399,093
1935	346,676
1934	295,011
1933	274,003

TOTAL COLLECTIONS	
1937	$22,958,638
1936	$19,942,550
1935	$16,006,246
1934	$13,158,924
1933 (8 mos.)	$ 7,864,763

PER CAPITA TAX	
1937	$7.09
1936	$6.16
1935	$4.94
1934	$4.06
1933 (8 mos.)	$2.43

A Man Earning $25.00 Per Week Pays Less Than 6 Cents a Week Gross Income Tax on His Salary.

Speaking of Statistics . . .

"Washington, Sept. 6, 1938—A friend of mine in the Commerce Department had a mean glint in his eye.

'It's all wrong,' he growled.

'What's all wrong?' I asked.

'The way we play our statistics,' he said. 'They give us the bad news all right. They tell us how many miles of track the railroads scrapped. But they don't tell us how the bus and truck traffic is growing. They don't tell us that in the last year we have built paved roads more than equal to the distance from New York to San Francisco.

'We go around feeling our statistical pulses until we are jittery. The figures don't tell us the good news.'

'What good news?' I asked.

'I'll give you some, but you'll throw it away,' he replied. 'You won't find any news in my statistics:

More than 43,000,000 Americans have not ceased to work at regular jobs; depositing their checks for work done; purchasing groceries, fuel, food, clothing and even a few ornaments.

Over 30,041,000 owners of pleasure cars have not ceased to consume daily about 60,000,000 gallons of gasoline, a substantial gain over last year.

Nearly 10,000,000 people have not ceased to go to motion picture theaters daily and pay $3,000,000 for such entertainment.

American people have not stopped spending more than $1,300,000,000 annually for tobacco and cigarets.

American businessmen are not afraid to appropriate approximately $450,000,000 for advertising this year as an expression of their faith in the future.

American householders have not stopped spending at the rate of more than two millions of dollars annually for electric power and light.

Approximately 11,000,000 Americans did not decide not to go fishing this summer, as usual.

More than 7,000,000 residents of New York City are not indulging in gas-mask rehearsals.

Millions of Americans are not worrying about the safety of more than $57,000,000 of their deposits in banks.

More than 27,000,000 students have not ceased to attend unregimented schools and colleges.

Approximately 129,000,000 people will not be killed by automobiles in 1938.

American citizens are not failing to spend more than $4,000,000,000 this year taking their annual vacations.

Twenty-seven million American homes—82 per cent of all—have not ceased to be equipped with one or more radio sets, obsolescence of which calls for the annual replacement expenditure of $400,000,000.

Our construction industry did not fail to build more homes in June and July this year than a year ago.

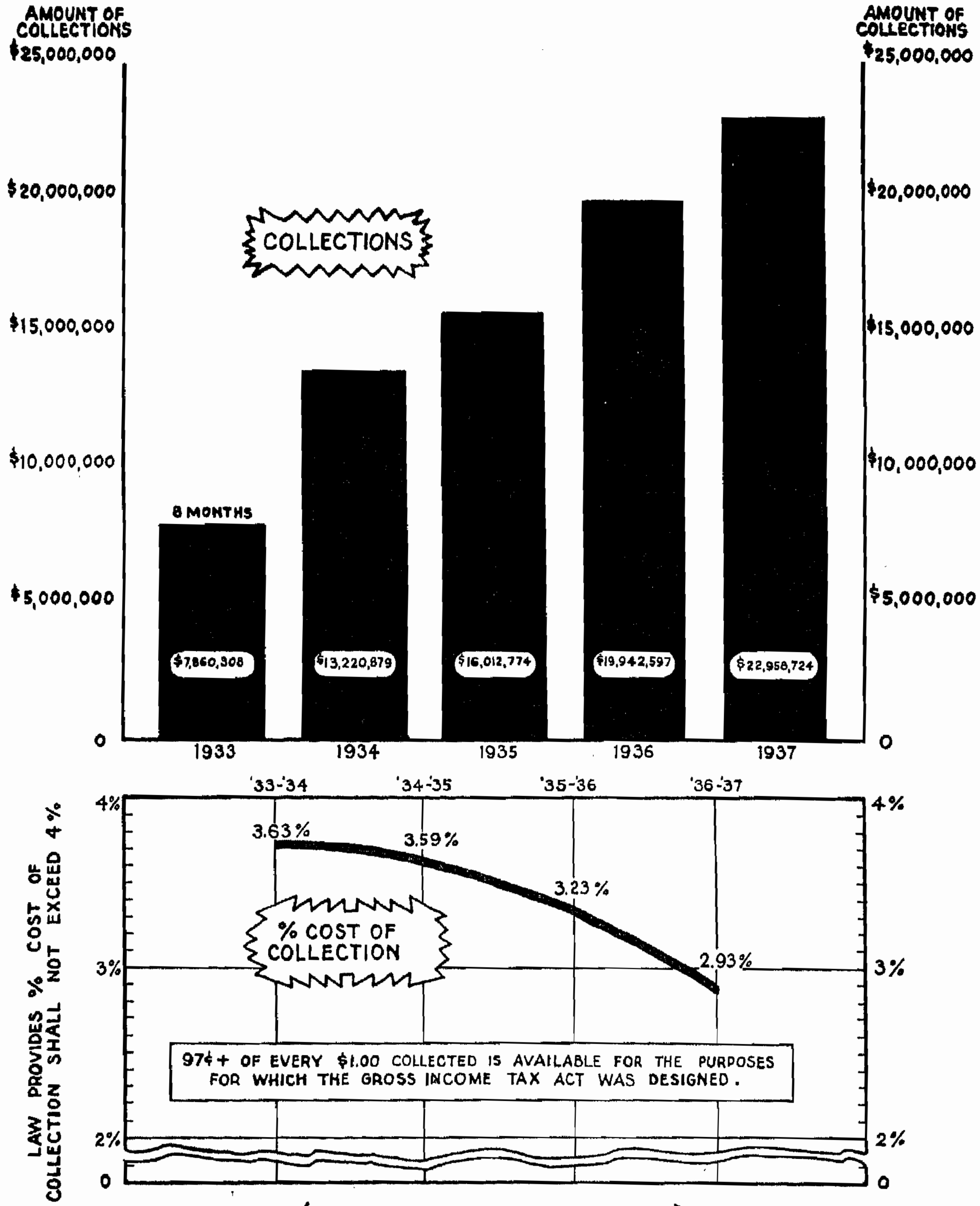
This is my favorite statistics of the lot:

Approximately 99 per cent of American businessmen have not issued statements blaming the Government for business conditions. Those who have are not worried about being leaned up against a stone wall and "liquidated." ' "—INDIANAPOLIS TIMES 9-6-38 By Raymond Clapper.

Gross Income Tax Collections

for Calendar Years

1933 to 1937



COST OF COLLECTION (AS A PERCENT OF TOTAL COLLECTIONS) IS ON THE FISCAL YEAR BASIS BECAUSE APPROPRIATIONS ARE MADE ON THAT BASIS.

G.I.T.

Is Not All a One-Sided Game

At the end of the last state fiscal year (June 30, 1938) a total of $348,891.56 had been refunded directly to gross income taxpayers.

It has been the uniform policy of the Division to be as diligent in finding overpayments of tax and making refunds to the taxpayers as in uncovering and collecting additional and delinquent tax. This point of policy has been made clear to the field force, and their work is judged from this angle. The staff of internal auditors is constantly on the lookout for mistakes to the taxpayer's credit, as well as other errors in filing. Their job and the job of the field force is to see that the returns filed are *correct;* the collection of additional tax or the refunding of overpayments of tax is incidental to that job.

The vast majority of citizens conscientiously endeavor to file their returns correctly, but mistakes are made both ways. It is not uncommon to find returns filed and the tax paid at the rate of 10 per cent rather than at the rate of 1 per cent, tax paid on income that is properly deductible, and tax paid twice. Quite to the contrary of the average belief, experience in the business of tax collection bolsters one's faith in the inherent honesty of Hoosier citizenry.

Taxpayers' claims for refunds of tax must be filed within three years after the payment of the tax for the annual period for which the alleged overpayment is claimed. Promptly upon receiving the claim for refund the Division examines the taxpayer's records for the purpose of verifying the claim. Payment is made as soon as it is ascertained that the facts entitle the taxpayer to the refund.

By virtue of an amendment to the Gross Income Tax Act by the 1937 Legislature, refunds of tax paid on receipts received on or after April 1, 1937 and filed under the amended Act, bear interest at the rate of 3 per cent per annum from the date of overpayment as shown by the annual return until the date such refund was allowed.

The Division receives some mighty complimentary letters from taxpayers who learn through the Division that they have some money coming to them.

9168 Miles of Road Are Maintained by the State.

Indiana Has a "93rd County"

From the standpoint of administration of the Gross Income Tax Act, Indiana has a "93rd county." "County 93" is an imaginary one composed of out-of-state taxpayers who have income from Indiana and are required to pay tax on the same basis as resident Hoosiers.

During the year 1937, the regular and deficiency tax and penalty and interest paid by these taxpayers neared the three million dollar mark with $2,959,429.67. This is second only to Marion county's $5,385,175.80 and is more than Lake and Vanderburgh counties combined.

Comparison of the revenue derived from "County 93" with the state total indicates it is a very welcome addition to the Adams-to-Whitley list of 92 which compose the regular family group. It has a population of 17,279 taxpayers, and it paid 12.88 per cent of the $22,958,638.12 collected by the Gross Income Tax Division in 1937.

"County 93" paid $491,556.52 on receipts from trade or business bearing the one fourth of one per cent rate—far exceeding Marion county's payment of $387,374.13, the next highest payment made on such income. Another indication of the revenue which Indiana could not collect under a retail sales tax law is found in the income from salaries, wages, and commissions reported for taxation by out-of-state taxpayers. Indiana collected $139,000 from this source in 1937 under the provisions of the withholding clause of the Act. (See page 23 for story on the operation of withholding provision of the Law.)

The extent of this income is indicated in the following table, which applies only to wage-earners who live outside Indiana but whose salaries are earned in Indiana.

SALARY RANGES	COUNTY 93 TAXPAYERS	AMOUNT REPORTED
Under $1,000	63	$ 27,913.00
$ 1,001 to $1,499	5,940	7,382,731.00
1,500 to 1,999	4,628	8,007,678.00
2,000 to 2,499	2,463	5,421,785.00
2,500 to 2,999	937	2,533,864.00
3,000 to 4,999	841	3,035,890.00
5,000 to 7,499	157	945,026.00
7,500 to 9,999	48	398,962.00
10,000 to 19,999	56	739,691.00
20,000 and over	22	697,509.00

Gross Income Tax Funds and Funds from the Federal Government Share 50-50 in the Cost of Caring for Each County's Needy Blind.

The Withholding Provision Works

Table of Amount of Salaries, Wages, and Commissions Reported by Non-Residents

1937	$29,191,049
1936	1,891,796
1935	1,309,027

Statistical breakdown for 1934 and 1933 is not available.

Statistical analysis of Indiana gross income tax revenues for 1937 revealed that the State collected $139,000 during the first year of operation of the withholding provision amendment passed by the 1937 session of the State Legislature. Nearly fifteen thousand persons living in other states but employed in Indiana were reached by this section of the Act.

A large portion of this $139,000 represents tax which the State would not have been able to collect prior to the enactment of the Amended Gross Income Tax Act. The original Act as it was passed in 1933, provided for payment of taxes by any person earning money in Indiana, but, because of legal restrictions, the Division was unable to collect from a non-resident if he refused to file a return and had no property in the State upon which to levy.

The Amended Gross Income Tax Act provides that any person having the payment, control, receipt, or custody of monies to others shall make information returns of all amounts paid in excess of $1,000 per year and shall, on non-residents, withhold tax of 1 per cent on the excess of such amount and pay such tax to the Division, unless there is filed with the withholding agent a certificate under oath to the effect that the person receiving such compensation is a resident of the State of Indiana. The withholding agents on or before January 31 of the year succeeding the year in which the payments of $1,000 or more are made remit the total of all such amounts withheld to the Gross Income Tax Division on forms prescribed and furnished by the Division.

The table shown at the top of this page shows the amount of income which had previously escaped taxation.

A "Door-to-Door" Peddler Is Not Entitled to the Exemption Granted Retail Merchants Who Have a Fixed and Established Place of Business.

Find Your County!

The report on this and the two following pages is the record of each of Indiana's 92 counties and their participation in the state tax program made possible by the Gross Income Tax Act. It is the complete picture—the total of payments made during the calendar year of 1937 and the total of distributions made for schools and the public welfare program during the calendar year 1938.

Eighty-one counties show a profit from their participation in the new tax, *i.e.,* they received back more money for the operation of their schools and welfare programs than the resident citizens and corporations paid in. There were nine counties—Allen, Delaware, Lake, Marion, St. Joseph, Tippecanoe, Vanderburgh, Vigo and Wayne—which received less.

The explanation for the counties which show a deficiency is simple. The tax is based on the volume of gross receipts reported and distribution is based on the volume of service performed. The nine counties are trade and manufacturing centers for wide areas, and by natural economics draw taxable wealth from the surrounding areas and from sections throughout the State. By assisting the less fortunate sections, the more populous centers protect themselves from the influx of people seeking educational and welfare advantages who would move from the rural areas where state standards cannot be maintained by local wealth. The gross-income-tax-sponsored plan simply recognizes a well known truth that education and welfare problems go beyond the local units and are state-wide in scope.

1937-38 COMPARATIVE REVIEW

COUNTY	1937 PAYMENT	1938 SCHOOL DIST.	1938 WEL. DIST.	1938 TOTAL G. I. DIST.	DIFFERENCE
ADAMS	$ 92,203.48	$ 92,400	$ 29,906.00	$122,306.00	$ 30,102.52
ALLEN	1,296,265.63	498,400	224,129.40	722,529.40	573,636.23
BARTHOLOMEW	132,320.03	111,300	47,328.80	158,628.80	26,308.77
BENTON	41,319.81	53,550	26,636.80	80,186.80	38,866.99
BLACKFORD	59,233.07	64,400	25,065.20	89,465.20	30,232.13
BOONE	92,717.68	92,400	49,381.80	141,781.80	49,064.12
BROWN	6,050.04	35,350	15,535.00	50,885.00	44,834.96
CARROLL	49,093.46	68,950	38,198.20	107,148.20	58,054.74
CASS	161,709.40	140,350	52,334.00	192,684.00	30,974.60
CLARK	72,191.10	139,650	63,143.40	202,793.40	130,602.30
CLAY	79,798.21	129,850	54,162.20	184,012.20	104,213.99

Because of a United Supreme Court Decision Federal Salaries Are Not Taxable Under the Indiana Gross Income Tax Act.

1937-38 COMPARATIVE REVIEW

COUNTY	1937 PAYMENT	1938 SCHOOL DIST.	1938 WEL. DIST.	1938 TOTAL G. I. DIST.	DIFFERENCE
CLINTON	$ 139,492.20	$131,250	$ 60,990.00	$192,240.00	$ 52,747.80
CRAWFORD	14,484.10	52,500	24,320.00	76,820.00	62,335.90
DAVIESS	67,981.88	125,300	84,584.00	209,884.00	141,902.12
DEARBORN	92,253.60	91,700	31,507.60	123,207.60	30,954.00
DECATUR	75,114.64	74,200	31,100.00	105,300.00	30,185.36
DEKALB	95,322.44	116,200	37,954.40	154,154.40	58,831.96
DELAWARE	622,246.12	290,150	80,204.40	370,354.40	251,891.72
DUBOIS	66,745.81	93,100	28,782.50	121,882.50	55,136.69
ELKHART	397,622.16	308,700	101,990.00	410,690.00	13,067.84
FAYETTE	94,115.35	81,550	35,420.00	116,970.00	22,854.65
FLOYD	125,497.93	126,700	53,854.60	180,554.60	55,056.67
FOUNTAIN	58,919.05	85,400	31,988.50	117,388.50	58,469.45
FRANKLIN	26,742.37	62,650	29,650.00	92,300.00	65,557.63
FULTON	58,792.29	71,050	27,320.00	98,370.00	39,577.71
GIBSON	82,119.42	140,000	88,552.40	228,552.40	146,432.98
GRANT	260,130.18	224,700	103,848.00	328,548.00	68,417.82
GREENE	69,387.68	159,950	77,602.00	237,552.00	168,164.32
HAMILTON	100,069.79	105,700	45,763.80	151,463.80	51,394.01
HANCOCK	68,123.76	71,050	36,230.20	107,280.20	39,156.44
HARRISON	26,597.56	92,050	16,165.00	108,215.00	81,617.44
HENDRICKS	60,689.72	87,500	37,399.00	124,899.00	64,209.28
HENRY	153,998.58	170,450	65,227.60	235,677.60	81,679.02
HOWARD	265,393.09	206,150	113,520.00	319,670.00	54,276.91
HUNTINGTON	122,706.18	132,650	41,086.40	173,736.40	51,030.22
JACKSON	104,405.82	117,250	47,585.00	164,835.00	60,429.18
JASPER	48,816.46	70,000	23,322.00	93,322.00	44,505.54
JAY	94,239.03	99,750	53,146.00	152,896.00	58,656.97
JEFFERSON	48,023.32	79,800	33,640.00	113,440.00	65,416.68
JENNINGS	23,280.16	61,250	26,080.00	87,330.00	64,049.84
JOHNSON	80,745.60	99,750	43,751.00	143,501.00	62,755.40
KNOX	172,508.35	193,200	79,305.00	272,505.00	99,996.65
KOSCIUSKO	130,603.69	134,750	55,416.00	190,166.00	59,562.31
LAGRANGE	34,180.44	68,600	22,670.00	91,270.00	57,089.56
LAKE	2,011,262.48	1,085,350	456,140.00	1,541,490.00	469,772.48
LAPORTE	314,583.52	231,700	86,669.00	318,369.00	3,785.48
LAWRENCE	74,728.88	183,050	115,052.50	208,102.50	223,373.62
MADISON	491,024.50	352,450	155,288.00	507,738.00	16,713.50
MARION	5,385,175.80	1,537,550	873,445.00	2,410,995.00	2,974,180.80
MARSHALL	100,107.92	127,400	46,180.00	173,580.00	73,472.08
MARTIN	13,687.60	57,050	22,963.50	80,013.50	66,325.90

The Law Exempts Over 225 Million Dollars in Receipts of Retail Merchants Each Year.

1937-38 COMPARATIVE REVIEW

COUNTY	1937 PAYMENT	1938 SCHOOL DIST.	1938 WEL. DIST.	1938 TOTAL G. I. DIST.	DIFFERENCE
MIAMI	$117,485.09	$123,550	$ 37,323.60	$160,873.60	$ 43,388.51
MONROE	159,701.17	184,100	93,706.00	277,806.00	118,104.83
MONTGOMERY	132,286.74	113,750	52,930.00	166,680.00	34,393.26
MORGAN	62,151.61	92,400	35,820.00	128,220.00	66,068.39
NEWTON	35,604.91	47,950	24,638.50	72,588.50	36,983.59
NOBLE	80,475.20	97,650	38,600.00	136,250.00	55,774.80
OHIO	7,191.15	17,150	6,784.50	23,934.50	16,743.35
ORANGE	41,856.17	84,350	35,561.80	119,911.80	78,055.63
OWEN	19,724.80	62,300	37,870.00	100,170.00	80,445.20
PARKE	39,529.29	83,650	39,117.50	122,767.50	83,238.21
PERRY	37,190.25	94,850	26,993.00	121,843.00	84,625.75
PIKE	32,475.94	84,000	50,400.80	134,400.80	101,924.86
PORTER	134,856.32	119,000	40,648.00	159,648.00	24,791.68
POSEY	47,577.81	76,650	53,111.60	129,761.60	82,183.79
PULASKI	38,874.51	59,500	25,022.00	84,522.00	45,647.49
PUTNAM	56,328.50	93,100	50,300.00	143,400.00	87,071.50
RANDOLPH	115,646.84	118,300	43,648.00	161,948.00	46,301.16
RIPLEY	67,834.22	77,350	34,238.30	111,588.30	43,754.08
RUSH	79,861.08	78,750	35,440.00	114,190.00	34,328.92
SCOTT	18,212.10	40,600	18,606.80	59,206.80	40,994.70
SHELBY	111,972.89	110,250	46,380.00	156,630.00	44,657.11
SPENCER	26,131.99	77,000	36,666.60	113,666.60	87,534.61
STARKE	31,591.76	57,400	38,410.00	95,810.00	64,218.24
STEUBEN	54,456.82	61,950	30,750.00	92,700.00	38,243.18
ST. JOSEPH	1,204,143.46	621,950	198,600.00	820,550.00	383,593.46
SULLIVAN	63,734.52	145,600	74,637.00	220,237.00	156,502.48
SWITZERLAND	11,044.31	40,600	22,970.50	63,570.50	52,526.19
TIPPECANOE	349,348.58	187,600	84,290.00	271,890.00	77,458.58
TIPTON	54,129.33	70,000	32,300.00	102,300.00	48,170.67
UNION	15,612.22	26,950	9,344.40	36,294.40	20,682.18
VANDERBURGH	899,852.57	404,600	205,090.60	609,690.60	290,161.97
VERMILLION	62,254.68	106,750	44,965.80	151,715.80	89,461.12
VIGO	656,415.80	400,400	196,540.00	596,940.00	59,475.80
WABASH	101,813.35	114,450	63,934.40	178,384.40	76,571.05
WARREN	17,652.48	43,050	15,583.80	58,633.80	40,981.32
WARRICK	42,064.92	95,200	63,525.00	158,725.00	116,660.08
WASHINGTON	25,855.16	90,650	28,796.00	119,446.50	93,591.34
WAYNE	383,346.56	225,400	105,425.30	330,825.30	52,521.26
WELLS	90,528.93	90,300	36,267.00	126,567.00	36,038.07
WHITE	59,185.93	86,450	30,865.60	117,315.60	58,129.67
WHITLEY	58,387.11	81,900	22,755.20	104,655.20	46,268.09
TOTAL	$19,999,208.45	$13,913,550	$6,220,392.30	$20,133,942.30	

During 1937 There Were 167,163 More Hoosiers with Sufficient Income to Pay Tax Than During 1933.

Public Gets Back More Than It Pays

Gross Tax Distribution Greater Than Income

Distribution from gross income tax funds to schools and local units of government in the state during 1938 will total $20,138,942.30—nearly $135,000 more than the total paid by the citizens and corporations of the state during the calendar year 1937 the residents of Indiana paid 999,208.45 in gross income tax. .e January distribution and the stribution made July 16 of tuition support to the schools in the ninety-two counties total $13,913,550; the 1938 distributions to the civil units for old age assistance, aid to dependent children and other welfare services will total $6,220,392.30. Thus, the citizens of Indiana will have a 'net profit' of $134,733.85 as a result of their investment in gross income taxes in 1937," Mr. Jackson explained. "Distribution to the counties of more than was paid in by Indiana residents was made possible by the tax payments of non-residents. Out-of-state taxpayers with income from within Indiana are required to pay tax on the same basis as resident Hoosiers."

Interesting Tax Facts.

"In assembling some tax facts about the state, some very interesting comparisons have been noted. For instance, the property and poll taxes levied for collection in the state in 1932—the last year prior to the adoption of the gross income tax and the two other replacement taxes (intangibles and excise) and the beginning of operation of the property tax limitation law—totalled $140,094,386. The property and poll taxes levied for collection in 1938 totalled $100,693,688—a reduction of $39,400,698, or 28 per cent. These figures are a matter of public record," the division director reported.

"The state has contributed to that reduction of property taxes by the distribution of gross income, intangibles and excise taxes to schools and local units to reduce the amount of property taxes necessary for local purposes.

"The total of distributions to the schools and civil units during the school year 1937-'38 from those three replacement taxes was $23,634,863.05. Computed on the basis of total state valuation, an additional property tax rate of 62 cents would be required to produce such an amount."

—Franklin, Ind., *Star*, July 26, 1938

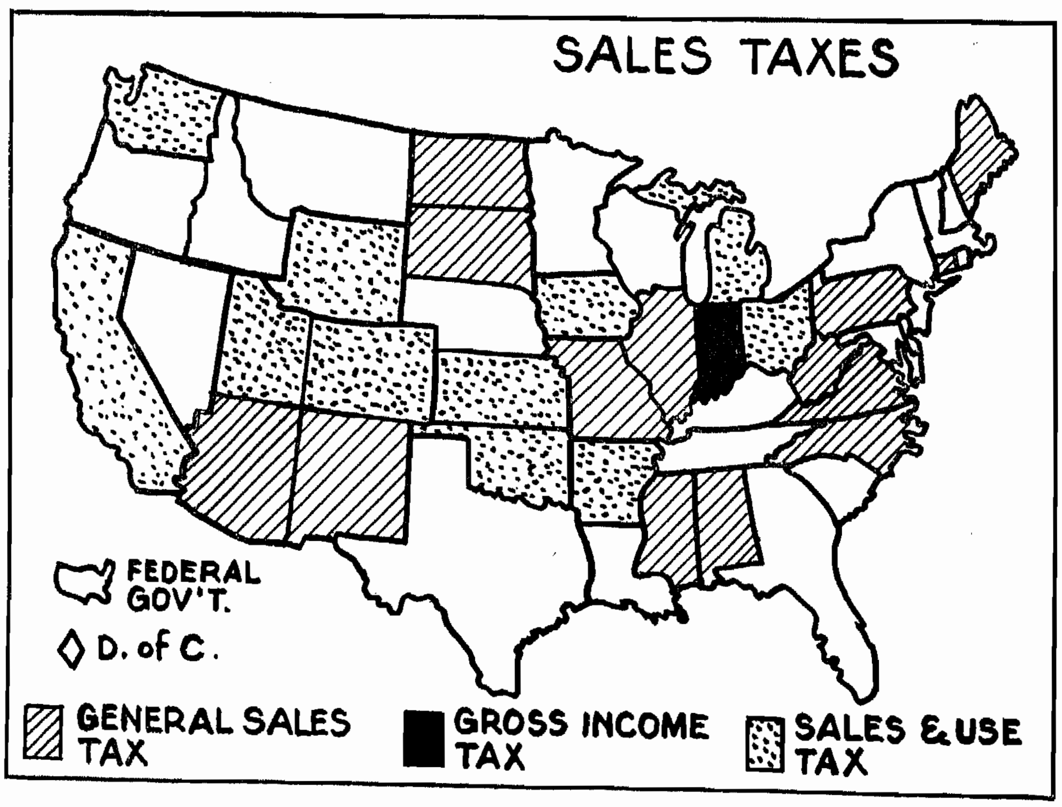
Believe It or Not, Mr. Ripley!

Indiana's Complete Tax Structure

The list of 24 taxes below is the complete Indiana tax structure and includes the more or less standard means of obtaining revenue, including property tax, gasoline tax, motor vehicle license and liquor levies.

Read this and then note the wide variety of levies which are made in other states but *not* in *Indiana*. Practically all of the states with taxes included on the opposite page also have the basic tax laws listed by Indiana.

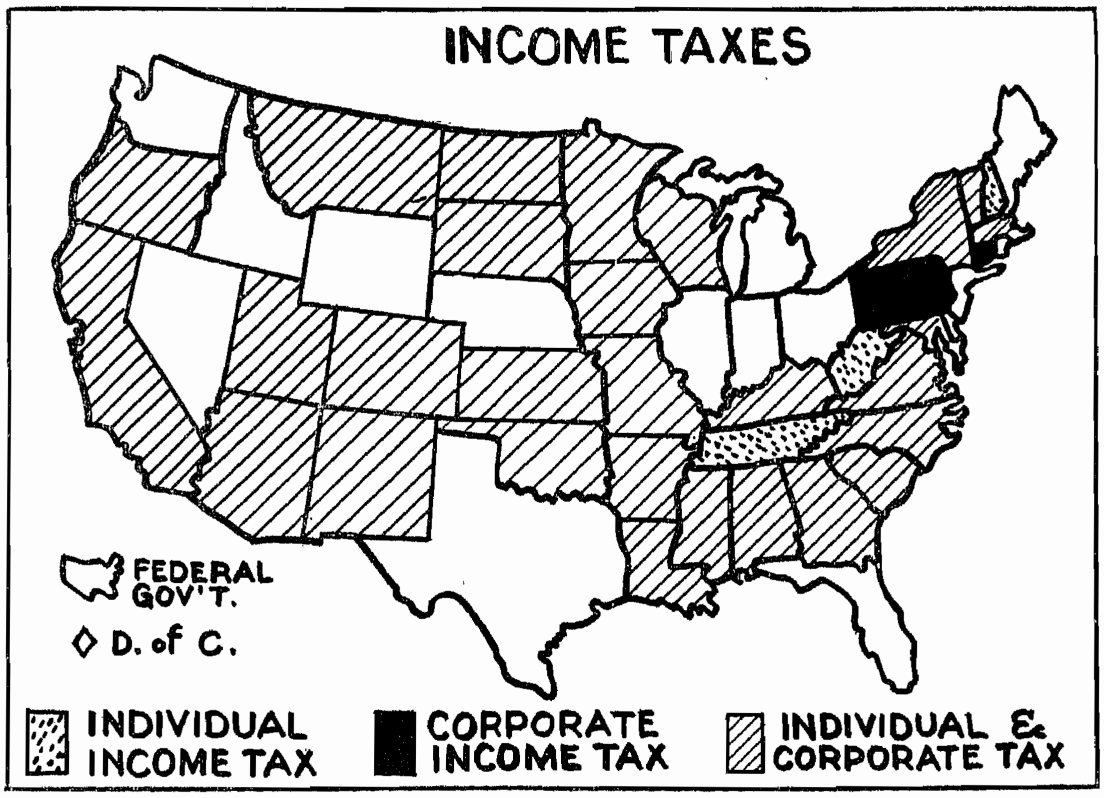
1. Dog Taxes
2. General property tax
3. Poll tax
4. Inheritance tax
5. Tax on foreign insurance companies
6. Vessel tonnage tax
7. Chain store tax
8. Liquor tax (permits & excise)
9. Small loan company tax
10. Malt sales tax
11. Motor registration tax
12. Intangible property tax
13. Motor carriers tax
14. Building and Loan capital stock and surplus tax
15. Bank deposits, surplus and capital stock tax
16. Motor title certificate tax
17. Vehicle weight tax
18. Chauffeurs license
19. Professional licenses
20. Gasoline tax
21. Car equip. company tax
22. Fire marshal tax
23. Circus privilege tax
24. GROSS INCOME TAX.



For a Retail Sales Tax to Produce As Much Revenue As the Gross Income Tax, It Would Be Necessary to Have at Least a 2.5 per cent Rate.

An Incomplete List For Other States

1. Retail sales tax. 2. Flat rate tax on pari-mutuel betting of 4 per cent of pari-mutuel purses and 10 per cent of admissions. 3. Similar taxes on dog racing. 4. Horse racing. Flat rate taxes for privilege of conducting races of $5 to $500. 5. Slot-machine taxes—flat rates of $2.50 to $5.00. 6. License tax on toll bridges and ferries (4 per cent of gross receipts). 7. Removal tax on sand and gravel removed from private property of 2½ cents to 5 cents per cubic yard. 8. Severance taxes on natural resources (timber and minerals) extracted. 9. 6 per cent gross receipts tax on express companies. 10. Tobacco taxes. 11. Domestic insurance company tax. 12. 6 per cent net income tax on financial institutions. 13. $5 to $100 tax on corporations. 14. Foreign corporation tax. 15. Corporation organization tax. 16. Music brokers tax. 17. Net income tax. 18. Income surtaxes for pensions and school aid. 19. Excise on fish caught. 20. Recording deeds, mortgages—tax of 12 cents per $100 of value. 21. Tax on handling furs. 22. Sewing machine sales tax. 23. Grain and seed tax. 24. Artesian well tax. 25. Auction sales tax. 26. Natural gas tax. 27. Fire patrol tax on timber land. 28. Stock transfer tax—2 cents on each $100. 29. Private bankers tax. 30. Savings bank, state bank, federal bank and bank net income taxes of various kinds. 31. Tax on carbonated water. Tax on coin-operated devices (vending machines, pay telephones, pay-toilets.) 32. Billboard tax. 33. Gift tax. 34. Tax on operating aircraft. 35. Tax on bottled drinks, cosmetics, candy, etc. 36. Service tax on amusements, construction, professional, technical and other services of 2 per cent of value of services.



(NOTE THE LARGE NUMBER OF STATES THAT HAVE BOTH NET INCOME TAXES AND SALES TAXES)

The Indiana Federation of Labor and The Indiana Farm Bureau Have Publicly Declared Their Support of the Gross Income Tax.

What About a Net Income Tax?

Thousands of business men throughout the country are beginning to wonder if the sales talks about the equity of a net income tax haven't been fairy tales. Many of them believe that a net income tax from the viewpoint of a successful business or professional man is the most unfair tax in the country today.

In this new economic era of bitter, and often, unintelligent competition—in this era of too many people trying to be in every kind of business—successful businesses should be the first to question the *right* of Government to exempt their unsuccessful competitors from paying their share of governmental costs. Certainly if the unsuccessful are exempted, the successful businesses must pay *not only* their own share, but their unsuccessful competitors' share also.

For the year of 1935, 6,431 corporations filed federal net income tax reports and *paid no tax*. That figure does not include inactive corporations. During the same period, 4,397 filed returns and *paid tax*. —Of the total of 10,828 active corporations reporting, only 4,397, or 40.6 per cent, made contributions toward the expenses of the federal government.

When a man engages in business, he does so with the assurance that his rights will be protected by Government, and his activity puts a burden on Government for which he should pay. It is hardly logical to exempt him because his business did not yield a net profit during any given period. Furthermore, "no profits" can be the result of unfair competition, price-cutting, "high-powered" bookkeeping, poor business methods, or unwise management.

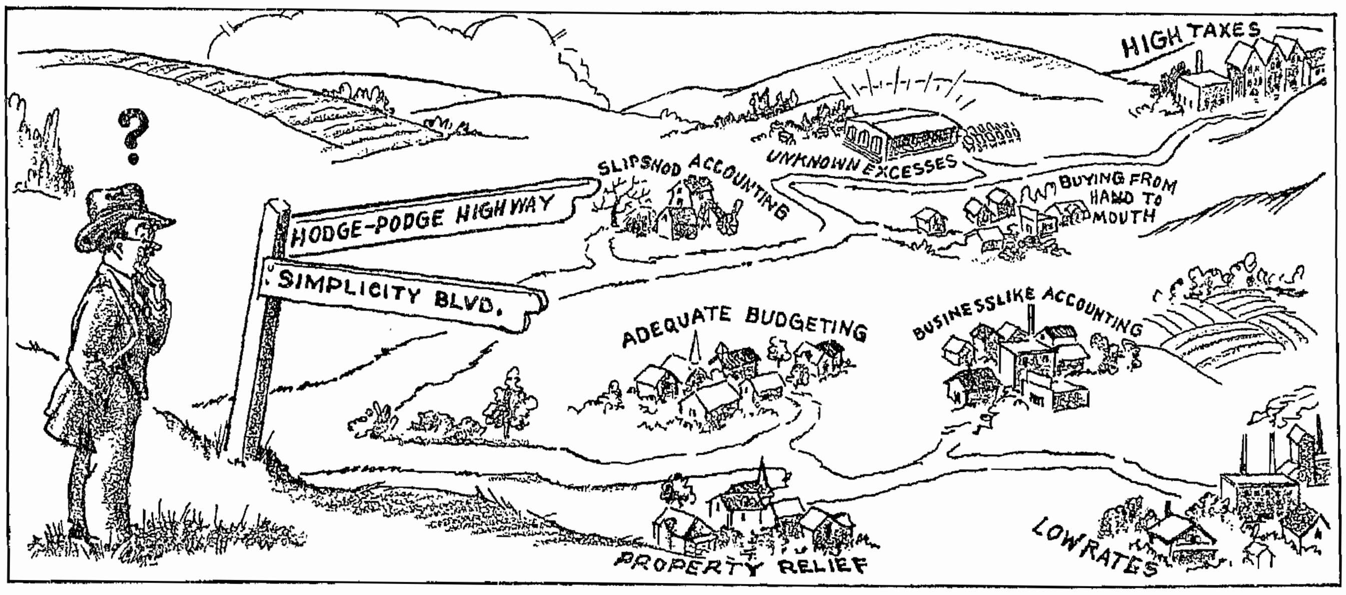
If Indiana should decide to replace its gross income tax with a net income tax which would produce an amount of revenue equivalent to that produced by the present gross income tax, it would mean that the State of Indiana would be forced to set net income tax rates much higher than the present federal rates. For instance, federal net income tax collections in Indiana for the fiscal year ending June, 1935, totalled $13,849,381.60. Of this amount $7,642,141.99 came from corporations with a minimum rate of 13¾ per cent. Individuals supplied the balance, namely, $6,207,239.61, at a minimum rate of 4 per cent.

As the gross income tax now produces nearly 23 million dollars a year, a comparison with the experience of the federal government indicates that for the State the corporation rate would have to be raised approximately 9.1 per cent and the individual rate raised about 2.6 per cent to produce an equivalent amount. On this basis, the corporations instead of paying a net income tax to the federal government alone, would also have to pay the State an additional rate of 22.8 per cent, making a total of approximately 36.55 per cent. The individual would have his minimum of 4 per cent federal, plus a state rate of 6.6 per cent, making his total net income tax 10.6 per cent.

It is obvious that a net income tax could not do the job that the gross income tax is doing. Indiana would find herself in the same condition that all other states with net income taxes have found themselves in, namely, that of having to add either sales taxes or many nuisance taxes to raise the necessary amounts. Indiana is doing it under only one tax—the gross income tax.

A "Pack-A-Day" Cigarette Smoker Who Earns $2,000 Per Year Pays More Than Twice As Much Tax on "Smokes" as on Gross Income. (6 cents per pack is $21.90 per year. Gross income tax payment is $10.)

Which Road Do You Want?



In a world where talk of taxes is almost taking the place of the weather as a topic of conversation, citizens in many states are waking up to find that they have a complicated, hodge-podge tax structure which, like the fabled Topsy, "just grew." It is the natural result of the lack of a central plan in the daily struggle of government to make both ends meet in the face of increasing demands for services.

Indiana inaugurated in 1933 a broad program of tax revision and property tax reduction which enables citizens and officials to view the revenue and disbursements in the light of past experience. By gearing the gross income tax to the income Indiana produces each year, the student of government obtains his first clear picture of the relationship of government to business.

Mr. Hoosier Citizen can look to the gross income tax collections, the property tax rates, and the gasoline tax revenue and account for approximately 90 per cent of his tax burden. Contrast this with the myriad of tax laws in other states where countless factors determine the volume of receipts. Compare the collections year by year (if you can spare the time to visit a dozen different tax-collecting bureaus), and then try to explain why your taxes are higher or lower. This situation is true in many other states which, in the thought of the cartoon above, are rambling down Hodge-Podge Highway. To date, Indiana has elected to travel Simplicity Boulevard, and the great bulk of her citizens can see the open-book of tax costs by following the trend of the three taxes—gross income, property, and gasoline.

A Resident of Another State Having a Gross Income Tax Must Pay Tax on Any Income from Indiana Regardless of Other State Laws.

The Court Speaks . . .

"It cannot logically be said that one who engages in large enterprises, with the assurance that his rights are protected by the vast machinery of government which makes possible the conduct of affairs under civilized rules, has not enjoyed a privilege and protection, and put a burden upon the machinery of government on account of which he may be required to contribute to the governmental expense, merely because his activities did not yield him a net profit in any given period. The government must operate in years in which its citizens have not profited as well as in years when they have. It is universally recognized that the burdens of government cannot be distributed with exact justice upon all persons and property. It is also recognized that to distribute the burden of government per capita would work an injustice upon those who are least able to pay and least able to cope with social and economic problems, and who, because of their more complex activities receive more protection from and put more burden upon the instrumentalities of government. To distribute the burden with exact justice is impossible. The legislature has chosen to measure the share of each by his gross income. It cannot be said that that method is unreasonable. . . ."

. . . Extract from decision of Indiana Supreme Court upholding constitutionality of Indiana Gross Income Tax in case of J. Harry Miles vs. State of Indiana,—Nov. 21, 1935

Sales to the Ultimate Consumer are Definitely Established as Retail Sales

●

The Supreme Court of Indiana on May 11, 1938 denied the petition of the J. P. Michael Company to transfer the case of the Department of Treasury vs. the J. P. Michael Company to the Supreme Court of Indiana.

This petition was filed after the Indiana Appellate Court had decided this case against the contention of the J. P. Michael Company that income from the sale of groceries in large quantities to state and county institutions was income from a wholesale source and taxable at the rate of one fourth of one percent under the Gross Income Tax Act rather than at the rate of one per cent, the rate on retail sales, and after the Appellate Court had denied the Michael Company's petition for a rehearing.

That denial marked the final step which could be taken by the J. P. Michael Company in that case, and consequently established definitely the principle that sales to the ultimate consumer are retail sales. In the opinion of the Legal Department, that was the most significant court decision concerning the gross income tax since the Miles case, in which the constitutionality of the Gross Income Tax Act was upheld by the Indiana Supreme Court and an appeal to the United States Supreme Court denied.

Upon the authority of the denial in the J. P. Michael Company case, the Indiana Supreme Court also denied the petition to transfer the appeal in the case of the Department of Treasury vs. Paul W. Jackson.

Both cases announced the proposition that "the rate of tax does not depend upon the business in which the taxpayer is engaged, but upon the activity from which each item of his gross income is received. Sales to ultimate consumers or users must be regarded as retail sales, whether made by the producer of the article sold or another, and regardless of the quantity involved in the sale or any price concessions made."

●

In the Fiscal Year 1936-37, 22.5c of the "Statehouse $1" Went for the Maintenance of State Highways.

Echoes from the U. S. Supreme Court and Federal Court . . .

THE U. S. SUPREME COURT DECIDES RECEIPTS FROM INTERSTATE COMMERCE ARE NOT TAXABLE BUT DOESN'T DEFINE INTERSTATE COMMERCE

On May 16, 1938 the United States Supreme Court ruled in the case of the J. D. Adams Manufacturing Company vs. the Department of Treasury that the Indiana Gross Income Tax Act was not applicable to income derived from transactions in interstate commerce, but was applicable to interest on bonds of Indiana municipalities, thus reversing in part the decision of the Indiana Supreme Court of May 3, 1937, which held both gross income derived from sales of products in interstate and foreign commerce and gross income from interest on bonds of municipal corporations of the State of Indiana taxable.

Pending the final decision of the Adams case the Gross Income Tax Division granted all taxpayers the privilege of reporting all gross receipts derived from transactions in *bona fide* interstate commerce upon special information returns and deferring the payment thereon.

The Division at no time granted the privilege of deferring tax payments on income from municipal bond interest.

Many uncertainties were left by the decision of the U. S. Supreme Court. The Court made no attempt to define interstate commerce. Consequently, the Gross Income Tax Division is of necessity faced with the problem of attempting to define transactions in interstate commerce as they arise and apply to the Gross Income Tax Act.

CONSTITUTIONALITY

In 1934 the Walgreen Company sought to enjoin the enforcement of the Gross Income Tax Act on the basis that it was unconstitutional under the Federal Constitution and under the State Constitution for the reason that the law was discriminatory and confiscated property without due process of law.

A special three-judge Federal court decided that the Gross Income Tax Act was not discriminatory and did not confiscate property without due process of law for the reason that the Act gave to the taxpayer a clear and complete remedy at law and that the taxpayer could maintain a suit for refund for the amounts of tax that he had paid to the State of Indiana under the provisions of the Act and pointed out that the Federal Court would not grant injunctive relief where a taxpayer has a complete and adequate remedy at law and has not availed himself of that remedy.

In every case the Courts have upheld the constitutionality of the Gross Income Tax Act. The constitutionality of the Act was contested in the Adams case in the Indiana courts, but the Indiana Supreme Court's decision upholding its constitutionality was not a point at issue in the appeal to the U. S. Supreme Court.

QUESTIONS AND ANSWERS
for Taxpayers Only!

The following "true and false" statements have been prepared in the style of the currently popular intelligence tests. There are no prizes, certificates, or carton fronts to send in. The only reward is an increased understanding of the gross income tax and the part it plays in the Indiana tax structure.

The questions are not tricky. They were designed to bring out some of the points of general interest regarding Indiana's nationally famous tax.

Here is an interesting way to learn the facts. Don't guess, and don't look at the answers (which are on the following page) until you have checked all the statements on this page.

Score yourself. Here is the yardstick:

Ten correct..................Colossal
Nine correct................Fair enough
Eight correct...............Not bad
Seven correct..............Not so good
Anything else..............Tsk! Tsk!

1. The Gross Income Tax Act was passed by the Legislature of 1933. True............. False.............
2. Gross income tax funds are used for the payment of school bonds and the construction of new school buildings. True............. False.............
3. The files of the Gross Income Tax Division are open to the public. True............. False.............
4. Residents of other states who work in Indiana are required to pay gross income tax. True............. False.............
5. The gross income tax is putting people out of business in Indiana. True............. False.............
6. A taxpayer must pay gross income tax whether he makes a profit or not. True............. False.............
7. A city is taxable on the receipts from the operation of its swimming pool. True............. False.............
8. A resident of Indiana who owns stocks and bonds of a corporation operating in another state must pay gross income tax on this income. True............. False.............
9. Organized labor is opposed to the gross income tax. True............. False.............
10. A clerk in an office makes $100 per month. His supervisor makes three times as much ($300 per month) but is required to pay thirteen times as much tax. True............. False.............

In the Fiscal Year 1936-37, 8.5c of the "State House $1" Went for the Support of the 19 State Institutions with Their 19,823 Inmates.

HERE ARE THE ANSWERS

But Don't Look Unless You Have Checked the Statements on the Preceding Page

1. TRUE. (Former Governor Paul V. McNutt signed the measure which became effective May 1, 1933. Broadening the tax base to spread the tax burden more equally to all citizens enjoying the benefits of government had been advocated by tax experts of all political faiths for many years. Adoption of the gross income tax came after retail sales tax, net income tax, and a host of nuisance tax proposals had been considered and rejected.)

2. FALSE. (Gross income tax funds are used toward paying teachers' salaries. Any assistance in retiring bonds or financing new construction is indirect through lowered property tax rates.)

3. FALSE. (No information will be revealed to anyone without a fully executed power of attorney given by the taxpayer, or a judicial order. A heavy fine and jail sentence is provided for any employee of the Division who improperly reveals any information on a taxpayer's return.)

4. TRUE. (The Act requires the employer of non-residents to withhold the tax from salaries, wages, or commissions and pay it to the State.)

5. FALSE. (It would be as accurate to say that paying rent, wages, utilities, or any other item of overhead caused a business failure. The rates fall on all alike so the unsuccessful business is not at a disadvantage in this respect. It is interesting to note that the 1937 report of the U. S. Attorney General shows Indiana had the smallest number of bankruptcy cases of any mid-western state. The Hoosier total of 526 compares with Ohio's 7,338, Michigan's 2,587, Kentucky's 959, and Illinois's 4,071. On the other hand, the gross income tax has evidently not prevented any new businesses from starting: The records of the Indiana Store License Division show 73,482 stores licensed in 1937 as compared to 58,761 licensed in 1933.)

6. TRUE. ("No profits" can result from poor business methods, unfair competition by price-cutting, or "high-powered" bookkeeping. These are hardly justifiable excuses for not bearing a share of the cost of government. Real estate pays property taxes whether rented or vacant, and, under a retail sales tax, anyone who buys anything from a store pays tax whether his own business is making a profit or not.)

7. TRUE. (A city engaged in business is a taxpayer. The municipal swimming pool must be regarded as competition for other privately owned amusement enterprises.)

8. TRUE. (Stocks and bonds are intangibles, and the legal situs of an intangible is the residence of the owner.)

9. FALSE. (The Indiana Federation of Labor has described the tax as "highly just and satisfactory." Labor knows that it benefits from lower property taxes and that a man earning $2,000 per year would pay from $40 to $50 under a retail sales tax compared to $10 under the gross income tax.)

10. TRUE. (The clerk receives $1,200 per year and with the $1,000 exemption has $200 taxable at 1%, or $2 in tax. The supervisor gets $3,600 per year and with the same exemption has $2,600 taxable at 1%, or $26 in tax.)

Indiana's Chambers of Commerce Rightfully Claim That the Hoosier Tax Structure Is the Most Equitable in the Union.

Tax Facts About the State

Herewith are shown the property and poll taxes levied for collection in the years 1932 and 1938 in the State. The year 1932 was selected for comparison with the current year because that was the last year prior to the adoption of the gross income tax and the two other replacement taxes and the beginning of operation of the property tax limitation law.

	1932	1938	Reduction	
Total taxes	$140,069,640	$100,693,688	$39,375,952	28%
*For schools (operating)	49,322,397	30,749,094	18,573,303	38%
*For state	15,508,574	6,591,353	8,917,221	58%
*For Public assistance	** 5,332,548	*** 15,289,776	9,957,228	187% Inc.

*These figures included in totals on first line.

**Township poor relief only.

***Township poor relief and county welfare combined.

Two of the ways in which the State has contributed to the reductions shown are: (1) by the reduction in property taxes levied for state purposes and (2) by the distribution of the gross income, intangibles, and excise taxes to schools and local units of government to reduce the amount of property taxes necessary for local purposes.

STATE DISTRIBUTIONS TO SCHOOLS

(1937-38 School Year)

Intangibles tax (Oct. '37 and April '38)	$ 1,042,963.84	
Excise tax (Dec. '37 and June '38)	703,362.80	
Gross income tax (Feb. '38 and July '38)	13,913,550.00	
Total	$15,659,876.64	

STATE DISTRIBUTIONS TO CIVIL UNITS

Intangibles tax (Oct. '37 and April '38)	$ 347,655.10	
Excise tax (Dec. '37 and June '38)	1,406,939.01	
**Gross income tax (for welfare purposes, '38)	6,220,392.30	
Total	$ 7,974,986.41	
Total		$23,634,863.05

**This is the amount budgeted for payment by the State. The State's share for these services is paid from the state general fund, to which the gross income tax is by far the largest contributor.

Computed on the basis of total state valuation, a property tax rate of 62 cents would be required to produce an amount equal to the $15,659,876.64 distributed to schools and the $7,974,986.41 distributed to civil units in the State. Because of the increase of the distributions to schools from $500 to $700 per teacher and the increased distributions for welfare purposes (old age assistance, aid to dependent children, aid to blind, etc.), more was returned to the counties this year than any year since the adoption of the gross income tax and the other replacement taxes.

During 1938, $20,133,942.30 will be returned to the schools and local civil units of the State from gross income tax receipts. During the 12-month period ended March 31, 1938, citizens and corporations of the State paid gross income taxes totalling $19,999,208.45, leaving a difference of $134,733.85 in the State's favor. Eighty-three counties show receipt of gross income tax distributions in excess of gross income tax collections within each county. The nine counties which received less are those which have unusually large collections principally because they include trading centers which draw upon other counties for a considerable portion of their taxable receipts.

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July 15, 1938

Mr. C. A. Jackson, Director
Gross Income Tax Division
141 South Meridian Street
Indianapolis, Ind.

Dear Mr. Jackson:

Messrs. C. L. McDowell and Claude Ware are at the present time visiting our office for the purpose of reviewing our Indiana Gross Income Tax Returns.

The following facts have struck me so forcibly that I could not help but call them to your attention. Both of these gentlemen have made an excellent impression on the personnel of our company, as well as our attorneys.

They have proceeded with their work in a very efficient and orderly manner, discussing any controversial points in a very gentlemanly way, and spared us the necessity of burdensome detail where, in their opinion, it was not necessary. Although we have not necessarily agreed with some points brought up by these gentlemen, at least it has been a pleasure to discuss them in a businesslike manner.

The most noticeable point which, based on past experience, is the biggest surprise is that both of these gentlemen have been in our office by not later than quarter to nine each morning, and have not left until the office closes at 5:30. This is unusual, and certainly worthy of comment. Even though it does not cost our company anything should they waste their time, you can rest assured that the State of Indiana is obtaining full value for their services.

There is no other point to this letter except that the entire contact with Messrs. McDowell and Ware has been so unusual that I felt I should pass the information along to you. I am sure that no matter what taxes may be involved in the examination made by these men, the taxpayer cannot help but feel friendly towards them, and the State of Indiana for having such representatives.

Very truly yours,

D. Richardson

Treasurer

DRichardson:M

$20,133,942.30 Returned to Counties in 1938 From Gross Income Tax Funds

The schools of Indiana received checks totalling $6,970,250 from the State in the July, 1938, semi-annual distribution of teachers' salary funds made available by the gross income tax. The checks mailed July 16 constituted the largest single apportionment of school funds made since the gross income tax law was adopted, and the second distribution of state-collected school funds on the new basis of $700 annually for each teaching unit.

Payments July 16 were made to the schools at the rate of $350 for each teaching unit, as compared to $250 a unit in the distribution in July, 1937. Teaching units are based on one teacher and an average daily attendance of thirty-five grade school pupils or twenty-five high school pupils. A total of 19,915 such units were allocated in making the July distribution, according to J. William Bosse, director of statistics and finance for the Department of Education.

A similar distribution of $350 a unit was made last January. The total amount distributed at that time was $6,943,300, making a total for the year of $13,913,550.

Believe It Or Not, Nearly $135,000 More Returned To Counties In 1938 Than Was Paid In By Indiana Residents

In addition to the 1938 school distributions of $13,913,550, the counties will receive from the state general fund, to which the gross income tax is by far the largest contributor, $6,220,392.30 for old age assistance, aid to dependent children, and other welfare services provided for under the public welfare act passed by the 1936 special legislative session. This is the largest distribution of funds for welfare purposes since that time, making the total returned to the counties in 1938 from gross income tax funds $20,133,942.30. During the calendar year of 1937 the residents of Indiana paid $19,999,208.45 in gross income tax.—Thus, the citizens of Indiana will have a "net profit" of $134,733.85 as a result of their "investment" in gross income taxes in 1937.

Distribution to the counties of more than was paid in by Indiana residents was made possible by the tax payments of non-residents. Out-of-state taxpayers with income from within Indiana are required to pay tax on the same basis as resident Hoosiers.

Returned to Counties from G. I. Tax Funds 1938

School distributions . . .	$13,913,550.00
Distributions for welfare . .	$ 6,220,392.30
Total returned to counties .	$20,133,942.30
Total gross income tax paid by residents	$19,999,208.45
"Net profit" to counties . .	$ 134,733.85

Hoosier Citizens and Corporations Are Not Taxable on Receipts Derived from Inter-State Commerce.

Why We Have a Gross Income Tax

The gross income tax was brought into being as a result of an emergency created in Indiana by passage of the so-called "dollar and dollar and a half" tax law limiting the amount which might be collected in local property taxes. This law limited property tax rates to $1.50 in cities and towns and to $1.00 in townships, except in cases of emergency.

The "dollar and dollar and a half law" was placed on our statute books after years of urging by farmers and others whose wealth is centered in real estate. These people contended that property was bearing more than its share of taxes. As a matter of fact, property did bear more than 82 per cent of the total tax burden in Indiana in 1932.

PROPERTY TAX DECLINES

The "dollar and dollar and a half law" had the effect desired by its sponsors. Property taxes actually collected in Indiana in 1932 amounted to $128,968,391.55. Property taxes actually collected in Indiana in 1933 amounted to $88,264,030.63, a decline of approximately $40,700,000 in the amount of revenue actually immediately available from this source. Property taxes levied for collection in 1932 were $140,069,609. Property taxes levied for collection in 1933 were $98,172,641, a decline of nearly $42,000,000.

What concerned the 1933 legislature, of course, was the amount which would be collected and made available for use. This decline of $40,700,000 in property tax collections brought about by attempts of local communities to live within the limits of the "dollar and dollar and a half law," endangered the normal operation of government and schools. Such a decline was foreseen by the Legislature.

It was in the schools that the legislators were principally interested, because the state constitution places upon the state Legislature the responsibility of providing and maintaining a school system open to all children in all parts of the State. The Legislature's responsibility for the schools has been questioned.

DUTY OF LEGISLATURE

Here are the facts. A decision of the Indiana Supreme Court,* rendered in 1885, says:

"The Indiana constitution declares in very emphatic terms the duty of the Legislature respecting common schools, and the failure of that body to use all suitable means to build up and maintain the system would unquestionably be a grave breach of duty; but the constitution does not deny the right to the Legislature to select the means of building up and encouraging schools."

"The provision of the constitution," the court points out, "is that 'it shall be the duty of the General Assembly to encourage, by all suitable means, moral, intellectual, scientific and agricultural improvement, and to provide, by law, for a general and uniform system of common schools.' "

"This provision," the court continues, "imperatively enjoins the general duty upon the Legislature, but leaves to them much discretion as to the selection of means for efficient performance of that duty, and if the local agencies of government are employed to assist in the building up of the school system, there is no evasion of duty by the Legislature."

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* Robinson vs. Schenck, 102 Ind. 307

Alimony Is Taxable Gross Income.

"The legislature may, in their discretion, support all of the schools of the State by means of a general levy directly made by a legislative act, or they may provide for part of the expense of maintaining the schools, or they may delegate to local officers the power to levy such taxes as, in their judgment, may be needed to supply the wants of the local schools and make them useful and effective." That is what the court says.

STATE RESPONSIBLE FOR SCHOOLS

The point is that the State is required by the constitution to provide for a common school system in all parts of the State and to provide for its maintenance, either by delegating powers to collect revenue for schools or by exercising its own authority to raise revenue.

Ever since the adoption of our present state constitution in 1851, the State has recognized its duty to provide for schools by levying state-wide taxes, the receipts from which were subsequently distributed to the various school systems of the State.

Since 1905, there has been in existence in Indiana what is known as state aid for schools—that is, the collection of money by state-wide taxation for the purpose of assisting school districts unable, because of lack of local taxable wealth, to maintain their school systems in accordance with state standards.

OPERATING EXPENSES CUT

Until 1933, most of our schools could be kept open by means of local taxes, with only a small amount of help from the State. In 1933, however, our local taxes for operating expenses of schools were cut to $34,385,803, compared to local tax levies for schools amounting to $49,322,397 the previous year, a decline of nearly $15,000,000. Such a reduction in revenue, brought about by attempts of local communities to live within the limits of the "dollar and dollar and a half" law, presaged a collapse of our educational system unless immediate steps were taken to bring assistance. The legislature was called upon to perform its constitutional duty.

Thus, because of this emergency, there was brought about a new step in taxation in Indiana which had been advocated by tax experts of all political faiths for many years—the broadening of the tax base to spread the tax burden more equally over the citizens who enjoy the benefits of government.

Money Received by Gambling Is Considered Taxable Gross Income and Must Be Reported for Taxation Without Any Reduction on Account of Losses Incurred.

REVENUE PROVIDED FOR LOCAL SCHOOLS

Under a separate law passed in conjunction with the Gross Income Tax Act, it was provided that the State could return to local schools an amount up to $600 for each teaching unit. Through this method of state help, the schools of Indiana were able to come through the depression without a single school having been closed or a term shortened and with funds provided by the State for the payment of the teachers.

The school record in Indiana was in startling contrast to the records of practically every other state, where many schools were closed or terms shortened and teachers went unpaid for many months. Indiana's record was the carrying out of the pledge of Governor Paul V. McNutt that, above all, the education of Indiana's children must not be interrupted because of temporary general economic distress.

GROSS INCOME TAX FUNDS ADEQUATE

Governor M. Clifford Townsend sponsored the measure in the 1937 Legislature providing for the mandatory distribution of $700 (minimum) instead of $600 (maximum) for each teaching unit of the State in 1938 from gross income tax funds, a total of nearly $14,000,000. In previous years the distributions had ranged from $400 to $500 a unit.

Thus, the gross income tax is contributing to the replacement of a greater amount of property taxes which local units would otherwise have to levy, and in addition has enabled the State of Indiana to finance its share of the public welfare program under the Social Security Act without the imposition of new taxes.

The $6,970,250 mailed July 16, 1938, made the total received by schools from gross income tax funds $48,669,367.44.

Distributions have been as follows: February, 1934, $4,088,017.44; July, 1934, $4,007,200.00; February, 1935, $4,023,000.00; July, 1935, $4,021,600.00; February, 1936, $4,283,150.00; July, 1936, $4,297,600.00; February, 1937, $5,015,000.00; July, 1937, $5,020,250.00; January, 1938, $6,943,300.00; July, 1938, $6,970,250.00.

During the first calendar year in which the gross income tax was operative, 1933, gross income tax collections were made on eight months of income.

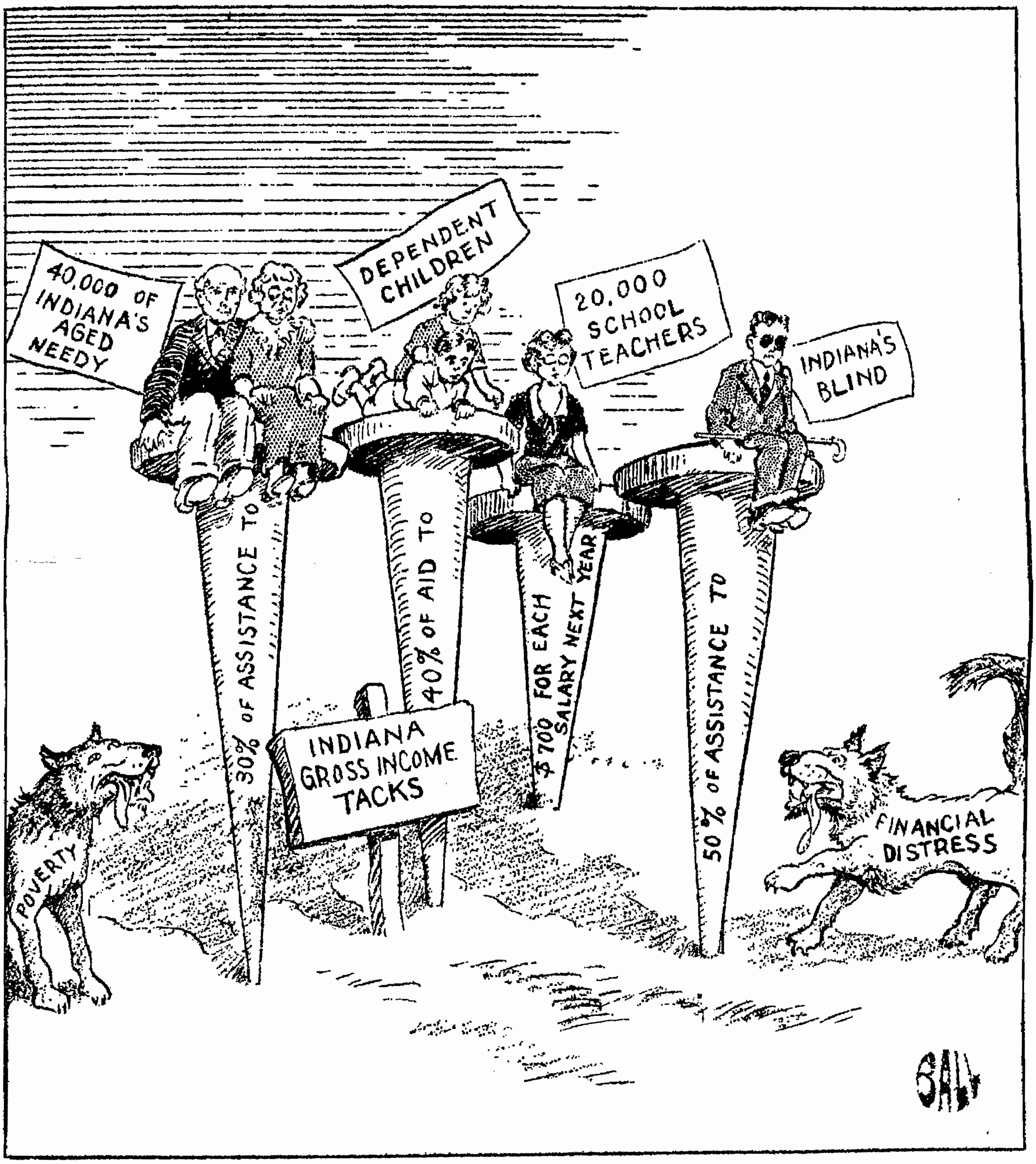
The collections on the calendar year basis have been as follows: 1933 (8 months) $7,864,763; 1934, $13,158,924; 1935, $16,006,246; 1936, $19,942,550; 1937, $22,958,638.

The number of taxpayers, as reflected by the number of annual returns filed, has increased steadily since 1933: 1933—274,003; 1934—295,011; 1935—346,676; 1936—399,093; 1937—472,588.

It is estimated that 1938 collections will be about $19,000,000, the decrease being due to the increased retailer's exemption and to the temporary recession in business during the early part of the year.

The State Property Tax Levy for 1938 Was 58 Per Cent Less
Than the Levy Made in 1932.

OUT OF REACH



Reprinted from June, 1937, G. I. Digest

Increased gross income tax receipts have kept pace with estimates of state officials who had anticipated that revenue from this source would enable the State to meet the increased drain on the state treasury of approximately $2,000,000 a year as a result of the lowering of the minimum age requirement under the old age assistance program from 70 to 65 and scheduled distributions of more than $20,000,000 of state funds in 1938 and thereafter to the schools and civil units of the State.

OPERATING COST LOW

The operating cost of the Gross Income Tax Division from the beginning of the Division to the end of the fiscal year 1937-38 was 3.15 per cent of the net collections for that period. This low operating cost necessary to collect taxes from this huge number of individuals, corporations, and other taxpayers was made possible in a large degree by the fact that the State was able to secure the services of the approximately 150 auto license branches as local points for distribution of return forms and information.

Through the cooperation of the Governors, the Bureau of Motor Vehicles and the individual license branch managers, these offices have been available to the Gross Income Tax Division and have rendered a real service to their State and to the citizens of their communities with no compensation from state funds.

LAW AMENDED

The 1937 Legislature amended the Gross Income Tax Act of 1933. The great majority of the revisions made were of a clarifying nature. The major change was an increase of annual exemption for retail merchants to $3,000 after a study of methods which might be employed to give assistance to small merchants. The $3,000 exemption is limited to retail merchants as defined in the law, and even then to such receipts as are derived from selling at retail.

"COUNT YOUR BLESSINGS," OR, GROSS INCOME TAX VS. SALES TAX

A retail sales tax is the substitute most frequently advocated by persons who favor replacing our present gross income tax law. Most advocates of the sales tax say that the law should make it compulsory for merchants to add the sales tax to each sale and collect it from the customer as a tax item.

Some legal authorities believe that a sales tax law containing a clause making it mandatory that merchants pass the tax on would not be constitutional in Indiana. If this provision were not contained in the law, merchants probably would have a more difficult task in collecting a high sales tax than they have now collecting the gross income tax. It must be noted, however, that if collection of the tax should be made mandatory in Indiana we would have to have a strictly retail sales tax. A mandatory collection feature can not be added to the Gross Income Tax Law. If merchants in Indiana decide, either as individuals or groups, to pass Indiana's one per cent retail tax on to customers as a tax item, there is nothing to prevent their doing so, providing they make the fact known to the customers before the price is agreed upon. This is now being done in many places, especially by hotel companies.

As a State Average, the Hoosier Farmer Who Paid $100 in Property Tax in 1932 Paid $72 in 1938.

HOW ABOUT THE CONSUMER?

In considering the sales tax, there is also the consumer's angle, which in most instances has been disregarded.

A sales tax rate of at least 2½ per cent would be required in Indiana to raise the same amount of money as the gross income tax. The reason why an increase in the rate would be necessary is obvious. Under the sales tax, only the money which goes through retail stores would be taxed. The millions of dollars of incomes which are not spent in retail stores, but which are now paying their share under the gross income tax, would not be taxed. Therefore, the retail levy would have to be raised.

The effect would be that the person with a small income, virtually all of which is spent in retail stores, would pay more taxes under a sales tax than he does under the gross income tax, even if merchants now collect one per cent on all his purchases.

60 PER CENT MORE UNDER SALES TAX

Take for example, an Indiana citizen who makes $1,200 a year, of which he spends $800 in retail stores. Under the gross income tax, he deducts his $1,000 exemption and pays $2.00 tax on his income. Merchants collect one per cent from him on all his purchases and he pays $8.00 to the merchants, making a total of $10.00 per year in taxes.

Under a retail sales tax of 2½ per cent, for instance, he would pay 2½ per cent on his retail purchases totalling $800.00, or $16.00 a year—60 per cent more tax than he pays under the gross income tax.

EXPERIENCE OF SALES TAX STATES

Indiana's merchants, as well as all other citizens who have not already done so, should investigate carefully the experiences in other states which have sales taxes. It is not necessary to go far for such an investigation—to Illinois for a 3 per cent sales tax; to Kentucky for a long list of luxury and nuisance taxes plus a personal corporation net income tax; to Michigan for another 3 per cent sales tax; to Ohio for a 3 per cent sales tax and pockets full of coupons.

Many retailers prefer the gross income to a sales tax today. If Indiana had a sales tax, the grocer would probably find himself saying all day long—"bananas, three pounds for 25 cents, plus tax; butter, such and such a price plus tax"—it would be "plus tax," all day long, and probably would lead to a continual argument with his customers. The drug stores, 5 and 10 cent stores, notion stores, and all other stores selling necessities and called-for items would probably find themselves in a position of being unable to collect any tax on sales of 5 cents, 10 cents, or even 15 cents. We have many letters from firms doing business in other states as well as in Indiana which say that the Indiana tax is easier to handle than any of the sales taxes.

An Outright Gift Is Not Considered a Taxable Receipt
Under the Gross Income Tax Law.

An executive of one of the large food chains reported that his company, in one of the sales tax states, was still required to absorb ½ of 1 per cent tax. This was necessary, he said, because of the large number of small sales which were not taxed according to merchants' established schedule for collecting the sales tax.

Even with a mandatory sales tax, we must also remember that there still would be loopholes for the "chiseler" who does not want to cooperate with his fellow merchants. It would be difficult, if not impossible, to word the law so that a merchant could not sell $1.00 items for 98 cents plus tax, bringing the total selling price of the merchandise to $1.00, while other merchants offered the same merchandise for the regular price of $1.00 plus tax, or $1.02.

GROSS INCOME TAX LAW STEP IN RIGHT DIRECTION

Friends of the gross income tax do not take the position that the gross income tax is a perfect law. The federal net income tax has been in existence for twenty-five years, and yet nearly every session of Congress finds it necessary to change some features of the federal law.

It is contended that the gross income tax is a step in the right direction; that it has spread the tax base, has been responsible for keeping Indiana's schools open, and has enabled the State to participate in the Social Security Program to the fullest extent without the imposition of new taxes and has reduced the total collections of property tax some 30 per cent.

One thing is indisputable—Indiana must have either a gross income tax or a similar tax that will produce the necessary revenue, or reduce the cost of government a similar amount, or add the necessary amount to property, gasoline, or some other of the present taxes.

We believe that as the facts are again reviewed by the Legislature and as Indiana with her gross income tax is compared with other states with their sales taxes, use taxes, heavy corporation taxes, personal net income taxes, tobacco taxes and a host of other taxes that Indiana has never heard of (and we hope never will), the members of the Legislature will say again—as they have on two previous occasions—

"We prefer what we have to any substitutes that have been offered."

Eighty-One Counties Received More Gross Income Tax in 1938
Than the Resident Citizens and Corporations of Those Counties Paid in During 1937.

THE ENVY OF HIS OTHER 47 SONS!

Reprinted from August, 1937, G. I. Digest

A Letter of General Interest Regarding Passing the Tax On

"Mr. Walter B. Smith, President
Indianapolis Hotels Assn., Inc.
904 Test Building
Indianapolis, Indiana

Dear Mr. Smith:

"In reply to your letter of July 20 requesting a statement concerning 'the regulation which applies to charging gross income tax,' Regulation 205 reads as follows:

> 'Since taxpayers are not made the agents of the State to collect gross income tax, any amount added as tax and collected by a taxpayer must be considered as an additional price received, and will be part of the gross receipts of a taxpayer and must be reported as taxable income.
>
> 'Since the Gross Income Tax Act is silent upon the matter of adding this tax to the selling price or charges, the adding of such tax to such selling price or charges must be entirely a matter of contractual agreement between the buyer and the seller, and the Department will therefore neither authorize the adding of the tax nor condemn the failure so to do, and only look to the taxpayer for the tax upon his gross receipts.'

"Our opinion is that, from a basic legal standpoint, the customer must be apprised of the seller's intention to add the tax at the time the price of the merchandise or service is quoted in order to render it a legally enforceable collection. For this reason, we have repeatedly advised that where it is the intention of the seller of either merchandise or services to add the Indiana gross income tax as a separate item, such intention should be prominently noted and be thoroughly understood before the purchase of the commodity or service is consummated.

"It is our understanding that hotels have complied with this advice by stating on their registration cards and on their menus something as follows: 'Indiana gross income tax of 1 per cent is added to above prices.'

"The matter of policy is something else, of course. Taxes are either hidden or open. Our observation is that the vast majority of Indiana businessmen prefer to handle the Indiana gross income tax as a business expense to be absorbed in their regular overhead and in their prices rather than as a separate item, feeling that in so doing, there is less irritation and less sales resistance from the customer.

"On the other hand, there are a considerable number of business men who are handling the gross income tax as a separate item in addition to their sales prices.

Very truly yours,
(Signed) Clarence A. Jackson."

CAJ:FC

Mr. Leeds Can Take It

We are indebted to Rudolph G. Leeds, publisher of the Richmond *Palladium* and *Item,* Richmond, Indiana, for the cartoon which we are publishing below. We hope we'll not be sued for plagiarism. Mr. Leeds thought for sure that he had one on the Division in a matter of calculations. He took a natural delight in kidding us about it. The error was on Rudolph's adding machine and not on ours. Since he is a good sport, the accompanying letter and cartoon clipped from the *Item,* are the result.

July 20, 1938

Mr. Clarence A. Jackson
Indianapolis, Indiana

Dear Mr. Jackson:

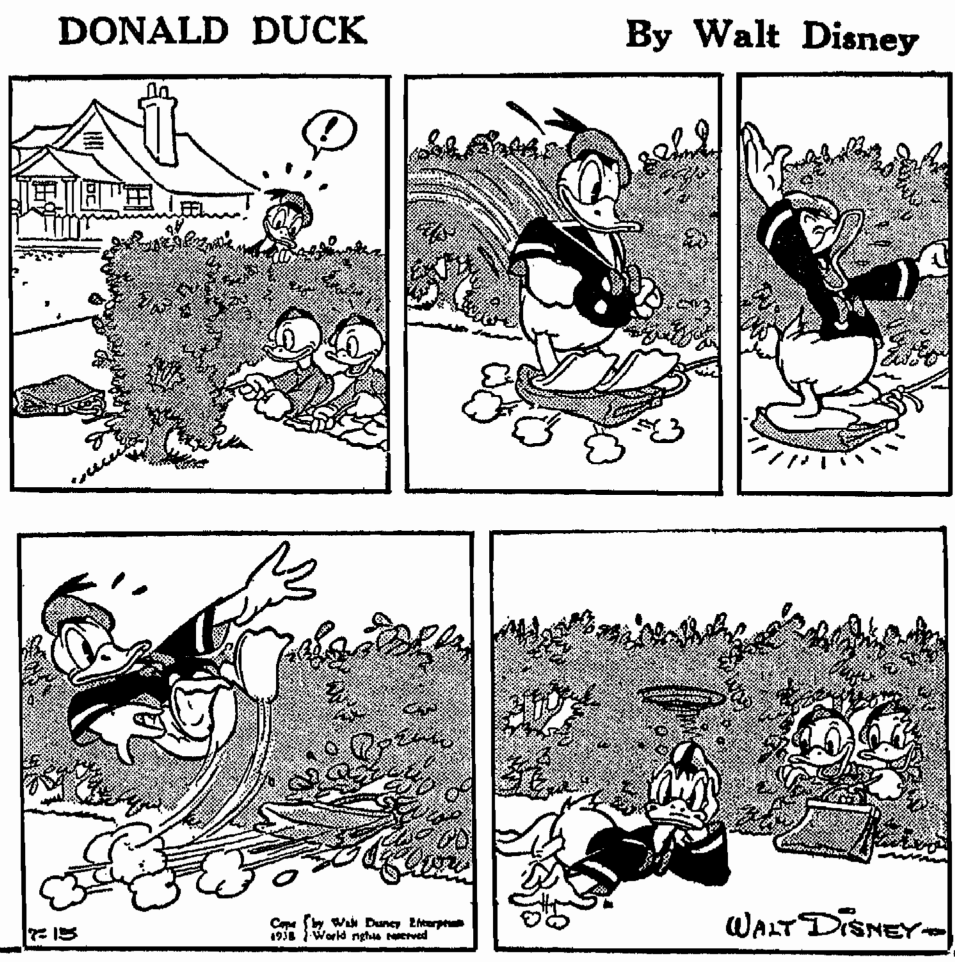
Thanks for the return of the cancelled checks. I'm sorry I troubled you and join with you in gladness the mistake is mine and not that of your office. I am sending check for ____________with 6 per cent interest to Mr. Preston.

The enclosed comics by Disney somehow or other appeal to me in regard to this case.

With kind personal regards,

Sincerely,

(Signed) Rudolph Leeds



Speaking of Penalties . . .

Just as we were closing this issue for the printer, a friend and former resident of New York State, brought us a notice from the Net Income Tax Bureau of New York. Take a look at the statement reproduced on this page and note that his failure to file on time means that his tax is *doubled.*

We have been told by those unfamiliar with dealing with federal or other state taxes, that our gross income tax penalty and interest rates are too high. However, comparison with New York and all other states we know of seems to indicate we are on the opposite extreme.

Section 376-2 of the New York Net Income Tax Law which invoked a penalty of 100 per cent on our New York friend reads as follows:

> "If any taxpayer fails voluntarily to make a return of income or pay a tax if one is due within sixty days of the time required by or under the provisions of this article, the tax, if it amounts to two dollars or more, shall be doubled, or if the tax is less than two dollars the sum of two dollars shall be added thereto, and the amount so determined shall be increased by one per centum for each month or fraction of a month from the time the tax was originally due to the date of payment."

Form No. IT-321-1
New York State
Income Tax
ORIGINAL

STATE OF NEW YORK
DEPARTMENT OF TAXATION AND FINANCE
INCOME TAX BUREAU
NOTICE OF ADDITIONAL ASSESSMENT
INCOME TAX
Albany, N. Y.

No.
Date SEP 2 1938

Against

YOU MAY KEEP THIS NOTICE

L F 19 79

Your State Income Tax return for the year 1937 discloses additional tax due as stated below:

		Amount of Tax Due
Explanation: The Tax Law provides that if an installment of tax is not paid when due, the entire balance shall become due at once.	EMERGENCY TAX	19.79
Unpaid balance	NORMAL TAX	49.38
		69.17
Penalty and Interest pursuant to Section 376		76.08
Total due		145.25

If not paid on or before SEPT 15th, further charges will accrue.
This return is still subject to audit.

The foregoing tax is hereby assessed as indicated herein.

THE STATE TAX COMMISSION

PAYMENT MAY BE MADE AT ANY OFFICE OF THE NEW YORK STATE INCOME TAX BUREAU
13 MAKE CHECKS PAYABLE TO THE STATE TAX COMMISSION
AH420

Summary of Contents

" . . . for the law is naught but words, save as the law is administered."

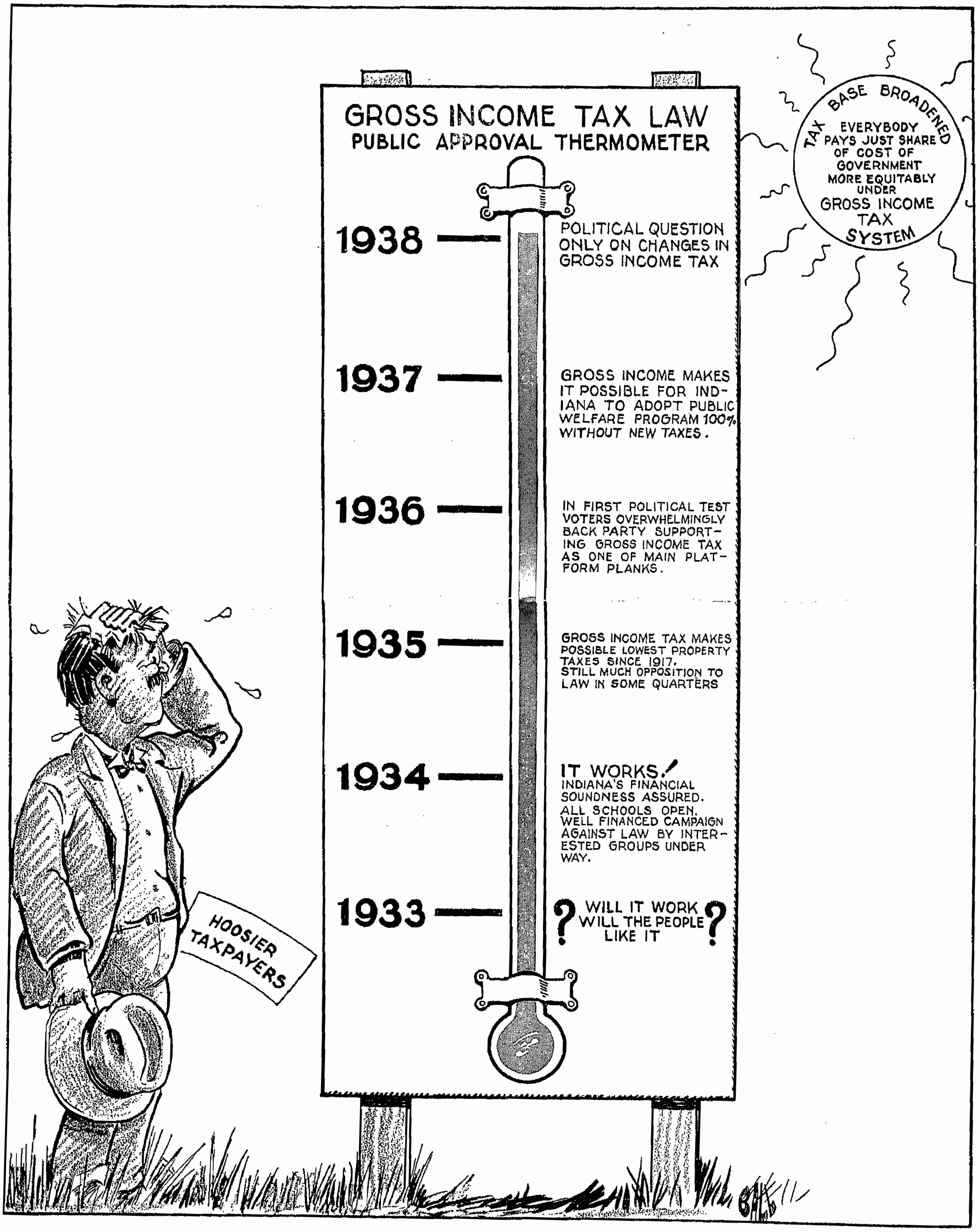
—CHIEF JUSTICE HUGHES

The above quotation of the Chief Justice of the United States Supreme Court is on the masthead of every issue of the Gross Income Tax and Store License Digest. This statement has formed the key-note of the administration of the Gross Income Tax Act since its inception.

The story of the administration of the Gross Income Tax Act is a story of business and politics and government, for in a Democracy, the trio are inseparable. From a business standpoint the Department has tried to bring to the Gross Income Tax administration the best the business world has to offer in equipment, methods, and personnel. In politics, the policy that "good government is the best politics" has prevailed. From a governmental angle, the viewpoint of the Department and its employees has always been that we are employed by the people of Indiana to do for them a specific job and that they are entitled to the best we have to offer as well as complete and accurate reports of what is being done.

This particular issue of the Digest is but a glance at the slightly more than five years of the practical operation of the gross income tax and pioneering in a new tax field. Our own observation in the last few years, leads us to believe that Indiana citizens are not only tax conscious as never before, but, in fact, intelligently tax conscious. Through the medium of explanatory bulletins concerning the gross income tax and other financial problems of the State and the splendid cooperation of the press, much of the mystery of where taxes come from and where the collections go has been dispelled. An enlightened citizenry has made it possible for the State Legislature and state officials to create for Indiana what is nationally admitted to be the most equitable, sound, and economical tax structure in the United States.

You will find the "welcome" sign over the door at 141 South Meridian Street, Indianapolis for any constructive criticism of the Act or its administration.


GROSS INCOME TAX LAW
PUBLIC APPROVAL THERMOMETER
1938
POLITICAL QUESTION ONLY ON CHANGES IN GROSS INCOME TAX
1937
GROSS INCOME MAKES IT POSSIBLE FOR INDIANA TO ADOPT PUBLIC WELFARE PROGRAM 100% WITHOUT NEW TAXES.
1936
IN FIRST POLITICAL TEST VOTERS OVERWHELMINGLY BACK PARTY SUPPORTING GROSS INCOME TAX AS ONE OF MAIN PLATFORM PLANKS.
1935
GROSS INCOME TAX MAKES POSSIBLE LOWEST PROPERTY TAXES SINCE 1917. STILL MUCH OPPOSITION TO LAW IN SOME QUARTERS
1934
IT WORKS! INDIANA'S FINANCIAL SOUNDNESS ASSURED. ALL SCHOOLS OPEN. WELL FINANCED CAMPAIGN AGAINST LAW BY INTERESTED GROUPS UNDER WAY.
1933
? WILL IT WORK WILL THE PEOPLE LIKE IT ?
TAX BASE BROADENED
EVERYBODY PAYS JUST SHARE OF COST OF GOVERNMENT MORE EQUITABLY UNDER GROSS INCOME TAX SYSTEM
HOOSIER TAXPAYERS