New Maryland Taxes

Special Session Of Assembly Yields Fair Formula To Raise $3,350,000 To Help Unemployed And Finance Security Program.

By V. J. Wyckoff.
Special Correspondence of the Post.

Annapolis, Md.

THE proof of the pudding lies in the eating and by the same test the success of the recent special session of the Maryland Assembly will depend on the adequacy of the revenues from the taxes voted for relief.

If, by this time next year, the receipts have equaled the estimates then one can say that a good job was done. Even an analysis of the present setup is fairly favorable from a critical point of view. New taxes under the best conditions are difficult to enact, and certainly the session that closed here early on April 3 worked under real handicaps.

It lacked effective executive leadership. It was bullied, wined and dined by a swarm of liquor lobbyists. It allowed petty local bills to clog the calendars. And finally the members for the most part loafed along to within several days of the end and then physically exhausted themselves in all-night wrangles.

* * * *

FROM Maryland's capitol came the following measures to replace the gross retail tax. There are four new taxes: a 1 per cent amusement tax, a 10 per cent cosmetics tax, a 75-cent levy on every barrel of beer sold in Maryland and a 5-cent-per-gallon tax on whisky manufacturing. (No change was made in the consumption taxes of $1.10 per gallon on liquors and 20 cents per gallon on wines). The existing domestic corporate franchise taxes were tripled, and the rates raised four times for foreign corporations. In addition, the current 1 per cent automobile titling tax was extended another year. These taxes are expected to yield $3,350,000 during the next 12 months starting April 1.

It is natural that there should be confusion in the minds of many concerning the need for this money and other sums that are scheduled for public welfare. One must distinguish between the permanent State social security program and the emergency (temporary) direct relief.

The first group of measures includes old age pensions and aid to dependent children. For pensions the appropriation is $3,000,000. Of this amount $1,000,000 comes from the State, $500,000 from local levies and $1,500,000 from the Federal Government. For dependent children the total is $2,350,000; the State gives $1,450,000, local units $200,000, and Washington $700,000.

For the direct relief of the unemployed destitute in Maryland the minimum figure of $1,800,000 has been set as the contribution from the State. Add this amount to the State's pledge for old-age pensions and dependent children and the total is $4,250,000 of which $3,350,000 is expected to come from the recent tax legislation and the balance of $900,000 is the present State treasury surplus from the defunct gross retail tax.

* * * *

WHAT about these taxes—are they good or bad as tax measures go? An answer to this question must be divided into two parts. First, are the taxes individually sound? Second, do the taxes weaken or strengthen the State tax system as a whole?

The cosmetic, amusement, beer and whisky taxes may be classified either as excises or as restricted sales taxes and as such will be paid in part by the ultimate consumer. It is difficult to foretell to what extent the man in the street will be conscious of his contributions to the State welfare program. If competition in the sale of the particular article is severe, it is probable that the manufacturers or the distributors will have to absorb most of the tax. This absorption in some cases will mean smaller operating profits and real distress. In other instances it will be possible to balance the tax with a change in the quality or the quantity of the article.

A sales tax is generally considered regressive. That is, it hits hardest those least able to pay. A 10 cent tax on a $1 purchase of cosmetics by a shop girl is usually a heavier burden than for the wife of the shop owner. But there are features that more than make up for this defect. Essentially the items of cosmetics, amusements beer and whisky offer a nice balance in human wants between luxuries and necessities. If the tax is oppressive (and these Maryland taxes are not) the use of such articles can be restricted. Inconvenient, to be sure, but there will follow no destruction of the basic fabrics of life. On the other hand the established tastes for such articles and services assure the State a steady income when a low tax is used.

Thus these taxes are justifiable on the score of expedient revenue producers and not on the more honored tests of benefits received or ability to pay. In some States the beer and whisky levies would have a regulatory or punitive aspect, but such considerations probably did not press heavily on the minds of the Maryland legislators. The titling tax on those automobiles used for pleasure would for purposes of analysis fall in the above group of four taxes.

As an individual item the annual corporate franchise tax that varies in amount with the capitalization of the business has much to recommend it. A business certainly profits from the social stability assured by a State government and the corporate form of enterprise carries advantages that have a monetary value. The tax, thus, partly measures benefits received from the State. And renewals of a franchise indicate earnings at least favorable enough to justify continued existence and by inference an ability to pay. Moreover it is a useful tax because the receipts can be rather accurately foretold.

* * * *

THE second important question about the new legislation concerns the State tax structure as a whole. Has it been weakened or strengthened?

To the extent that these taxes are temporary to take care of emergency relief they really do not make much difference in the tax system. The citizens of Maryland expect that the depression will pass and that most of the unemployed destitute will be reabsorbed by industry. But when expenditures in this State are assigned to a long-range social security program then there is a proposition of a different color. By definition such outlays are permanent. And the finance committees of the two houses of the Assembly will have to keep this in mind when they meet next year to arrange the State tax program.

Their arrangements might well be guided by two considerations. First, the security program from now on will form an appreciable item in the State budgets. Second, Maryland can no longer ignore the basic changes in tax practice and theory that are taking place in State financing in this country. These facts are certainly in the minds of the State tax commission and the fiscal experts of the General Assembly. It is, therefore, probable that in the near future the legislators will bring forward proposals along the following lines: A moderate consumers' retail sales tax exempting purchases under a small sum and for the basic necessities of life; the relinquishment by the State of its tax on general property; the creation of a graduated personal net income tax with low rates and low exemptions.

* * * *

THE framing of a tax program for a State is a technical job. It should rest on a thoughtful, competent piece of work by a research committee. This fact is being acknowledged by a greater and greater number of State legislatures. And although it is a habit for many assemblymen to regard a nonpartisan tax recommendation as a scrap of paper, bad habits can be changed if the voters really get serious. Certainly it is true that the more responsible representatives welcome and are guided by such specialized information.