REPORT

of

FINDINGS AND RECOMMENDATIONS

on the

PENNSYLVANIA TAX SYSTEM

by the

TAX STUDY COMMITTEE

Under Authority of

Act of Assembly

Approved July 9, 1947

(P. L. 1468)

PART I

FEBRUARY 1949

ACT OF ASSEMBLY CREATING TAX STUDY COMMITTEE AND DIRECTING ITS INVESTIGATION OF PENNSYLVANIA TAX STRUCTURE

Authorizing the Joint State Government Commission to make a thorough study of the tax laws of the Commonwealth and of other states and countries in order to ascertain ways and means of financing the Commonwealth and its political subdivisions upon a more scientific and equitable basis; providing for the appointment of a tax study committee; authorizing the employment of necessary assistants; prescribing the powers and duties of the committee; and making an appropriation.

Whereas, the existing tax structure of the Commonwealth has been developed on a piecemeal basis with the result that it lacks a scientific and equitable basis,

Whereas, it is frequently represented that our present tax structure unduly burdens industrial enterprise, with the result that new industrial enterprises are deterred from locating in the Commonwealth, and existing industrial enterprises are in an unfavorable competitive position, and

Whereas, increasing demands for government service result in the necessity of raising additional revenue to pay the cost thereof which must not be levied so as to destroy the industrial position of the Commonwealth.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. A committee to be known as the Tax Study Committee is hereby authorized under the Joint State Government Commission, consisting of the Secretary of Commerce, ex officio, who shall be chairman thereof, and six other members, two of whom are to be appointed by the Governor, two by the President pro tempore of the Senate, and two by the Speaker of the House of Representatives to study the laws of this Commonwealth and of other states and countries relating to taxation; to investigate systems and methods of taxation in order to provide ways and means of financing the Commonwealth and its political subdivisions upon a more scientific and equitable basis and to safeguard and enhance the industrial position of the Commonwealth. The members of the Committee shall serve without compensation, but they shall be reimbursed for their living and traveling expenses necessarily incurred in the performance of their duties.

Section 2. The Committee is hereby authorized to sit at Harrisburg, or elsewhere, within the Commonwealth and to employ a secretary and counsel and such other assistants as may be necessary.

Section 3. Vacancies occurring in the membership shall be filled by appointment by the authority who appointed the members whose place is vacated.

Section 4. The Tax Study Committee shall report its findings and recommendations to the Joint State Government Commission, and the Commission on or before February one, one thousand nine hundred and forty-nine shall report the results of its investigation to the Governor and the General Assembly, together with such proposed legislative measures as it deems advisable to carry its recommendations into effect.

Section 5. The sum of one hundred thousand dollars ($100,000), or as much thereof as may be necessary, is hereby appropriated to the Commission for the purpose of paying the expenses of the members of said Tax Study Committee and the salaries and traveling expenses of its employes for the preparation, editing, printing and distribution of the report of the Commission and any other expenses necessary to be paid on warrants of the Auditor General in favor of the chairman of the Commission, on presentation of his requisition for the same, for the work of the Commission in connection with said tax study.

APPROVED—The 9th day of July, A. D. 1947, in the sum of $50,000. I withhold my approval from the remainder of said appropriation because of insufficient State revenue.

JAMES H. DUFF.

The foregoing is a true and correct copy of Act of the General Assembly No. 562.

C. M. Morrison,
Secretary of the Commonwealth.

LETTER OF TRANSMITTAL

To his Excellency, the Honorable James H. Duff, Governor of Pennsylvania, and the Honorable the General Assembly of the Commonwealth of Pennsylvania:

The Joint State Government Commission transmits herewith Part I of a report of the findings and recommendations of the Tax Study Committee on the Pennsylvania Tax System, in accordance with the provisions of Act No. 562, Session of 1947, Section 4, which requires that the Commission shall file the report of the Tax Study Committee with the Governor and the General Assembly on or before February 1, 1949.

WELDON B. HEYBURN, *Chairman.*

Joint State Government Commission
Capitol Building
Harrisburg, Pennsylvania
February 1, 1949

TAX STUDY COMMITTEE

ORUS J. MATTHEWS, *Chairman*
JAMES A. GELTZ, *Vice Chairman*

APPOINTEES OF THE GOVERNOR:

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APPOINTEES OF THE PRESIDENT PRO TEMPORE OF THE SENATE:

JAMES A. GELTZ
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WARNER M. DEPUY

MEMBER BY STATUTE:

ORUS J. MATTHEWS

LETTER OF TRANSMITTAL

To the Joint State Government Commission:

In accordance with Act No. 562, Session of 1947, Section 4, the Tax Study Committee transmits herewith Part I of a report of its findings and recommendations on the Pennsylvania Tax System for submission to his Excellency, the Honorable James H. Duff, Governor of Pennsylvania, and the Honorable the General Assembly of the Commonwealth of Pennsylvania.

Because of the complexity of the subject matter assigned to the Committee by the General Assembly, it has been decided to present the Committee's report in two parts.

Part I reviews Commonwealth business taxes, the county personal property tax which is related to existing corporate taxes, "emergency" taxes and emergency tax rates. Part II, to be submitted subsequently, will survey the area of state-local fiscal relations.

ORUS J. MATTHEWS, *Chairman.*

Tax Study Committee
Harrisburg, Pennsylvania
December, 1948

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PRECEPTS, FACTS AND RECOMMENDATIONS

When the General Assembly of 1947 created the Tax Study Committee, it directed the group to recommend to the General Assembly of 1949 "ways and means of financing the Commonwealth and its political subdivisions upon a more scientific and equitable basis and to safeguard and enhance the industrial position of the Commonwealth."

The legislative mandate has set the course for the Committee's factual explorations and deliberations.

On the one hand, the Committee had no difficulty when attempting to give specific content to the legislative mandate that matters fiscal be placed on "a more scientific basis." The sum and substance of scientific endeavor is the attainment of certitude. Translated into tax language, this means the enactment of tax statutes which facilitate the determination of tax liability with a minimum of discretion on the part of taxpayers and tax gatherers.

On the other hand, the legislative directive that the Committee recommend "ways and means of financing the Commonwealth and its political subdivisions on a more equitable basis" presented the members of the Committee with some interpretive difficulties. In a period of rapid economic change such as the present, concepts of equity do not pass unchallenged. Nevertheless, men must somehow manage to agree upon some few basic concepts of equity. In the absence of such agreement, tax systems degenerate into a conglomeration of unrelated levies.

The Committee's recommendations and suggestions are based upon two simple precepts.

First, a worthy public general-purpose expenditure should be financed by means of broad based general taxes. Second, the tax base or bases should be selected to facilitate determination of the tax liability with a minimum of administrative discretion.

Unless the second precept is inseparably joined to the first, tax administrators are apt to usurp the legislative prerogative.

It is the judgment of the members of the Tax Study Committee that the recommendations outlined below will go a long way toward the attainment of the legislative objectives as interpreted by the Tax Study Committee.

I. PROPOSED CHANGES IN THE CORPORATE TAX STRUCTURE

A. With a view of eliminating excessive administrative discretion in the application of the tax laws, unnecessary compliance costs and unjustifiable double taxation, the Committee recommends the abolition of the following taxes levied for general fund purposes at the indicated rates:

Tax Bases	*Rates*	*Receipts Fiscal Year Ending 5/31/48*
Capital stock	5 mills	$28.6 millions
Corporate franchise	5 mills	10.3
Corporate loans	4 mills	2.0
Corporate net income	4 %	58.4[1]
TOTAL		$99.3 millions

B. In order to compensate for the general fund revenue loss occasioned by the abolition of the above listed taxes,

[1] Corporate net income tax receipts for May, 1948, were substantially smaller than receipts for June, 1948. For prior years, the reverse was true. Therefore, total receipts for fiscal 1948 are not strictly comparable to total receipts for previous fiscal years.

the Committee recommends the introduction of an alternative base corporate tax at the following rates:

Corporate net income	6 %
Employed capital	3 mills
Minimum fee	$25.

The taxable corporation would be liable in any one year to whichever of these levies produces the highest yield.

It is estimated that at the prevailing corporate income level the alternative base corporate tax, if applied in Pennsylvania at the rates recommended above, will produce the same yield as the taxes, abolition of which is recommended under A, above.

C. The Committee recommends that (1) corporations file only one annual report which shall contain all needed information with respect to the taxes imposed under B hereof, and (2) the statutes providing for the filing of reports with the Secretary of the Commonwealth with respect to corporate capitalization be amended to make it necessary for corporations to file such reports only when the capitalization of the corporation has changed.

II. PROPOSALS REGARDING "EMERGENCY" OR "TEMPORARY" TAXES

The Committee recommends that the soft drinks tax be abolished and that other taxes and tax rates now classified as "emergency" or "temporary" be retained as a part of the general tax structure.

III. PROPOSED NEW TAXES

A. Investment Income Tax

At the present time, securities owned by Pennsylvanians which are issued by a corporation subject to capital stock, corporate franchise and corporate loans taxes are exempt from the county personal property tax which is levied at the rate of four mills upon the capital value of these securities. The capital value of the securities thus taxed by a county is added to the assessed valuation of the taxable real property for the purpose of establishing the county's constitutional debt limit. In 1947, the total yield of the county personal property tax amounted to approximately $10,400,000.

If the Committee's recommendation for the abolition of corporate loans, corporate franchise and capital stock taxes is approved by statutory enactment, it may become at least desirable, if not necessary, to amend the county personal property tax law. Failure to amend that law would result in the taxation at the rate of four mills of all securities held by Pennsylvania residents which are now tax-exempt, with the exception of Federal and Pennsylvania bonds.

To meet the situation the Committee suggests *either:*

1. Permit the taxation of securities now tax-exempt by virtue of the fact that the issuing corporation is subject to capital stock, corporate franchise and corporate loans taxes, but reduce the rate of the county personal property tax from four to two mills, *or*

2. Abolish the county personal property tax and, in lieu of this levy, impose a Commonwealth tax upon all investment income of Pennsylvania residents, except income derived from federal, Commonwealth of Pennsylvania and Pennsylvania municipal securities, at the rate of 4%.

It is estimated that at 1948 income levels, the tax on investment income, exclusive of income derived from federal, Commonwealth of Pennsylvania and Pennsylvania municipal securities, would produce approximately $24,600,000 annually.

The Committee recommends:

1. That a Commonwealth investment income tax be substituted for the county personal property tax because:

   a. During periods of relatively low economic activity capital base taxes, such as the county personal property tax, are unduly burdensome upon all taxpayers but even more so on taxpayers of limited means.

   b. The county personal property tax as administered on the county level is both avoided and evaded.

2. Distribution of the yield from this tax be as follows:

   a. Distribute to each county an amount equal to its average annual collections from the county personal property tax for the period 1943-47;[1] this distribution would absorb about $10,000,000 of the estimated annual yield of $24,600,000.

   b. Distribute an additional $7,000,000 of this revenue among the counties on the basis of the ratio investment income tax collections within a given county to total investment income tax collections.

   c. Assign the remainder, approximately $7,600,000, to the Commonwealth for general fund purposes.

The reduction in the borrowing capacity of the counties resulting from the abolition of the county personal property tax presents no insurmountable problem.

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[1] See Table 14.

B. Tax on Unincorporated Business and Professional Activity

At present, no Commonwealth taxes are imposed upon the income derived from unincorporated business and professional activity.

The Committee recognizes (for further details see Part II of the Committee's report) that Article IX of the Constitution of Pennsylvania makes it apparently impossible for the Commonwealth to levy a constitutional tax upon the income derived from unincorporated business and professional activity which would permit the deduction of reasonable salary and wage allowances for proprietors, partners and self-employed professionals, therefore the Committee recommends that a tax at the rate of 1½% be imposed for General Fund purposes upon the income derived from unincorporated business and professional activity. The yield of this tax is estimated at $24,165,000 annually at 1948 income levels.

Summary of Part I—General Fund Revenues

The Committee recommends:

	Effect on Annual Commonwealth Revenues — *Gain*	*Loss*
I. The abolition of the present capital stock, corporate franchise, corporate loans and corporate net income taxes, and the substitution therefor of an alternative base corporate tax at the following rates:		
A. Corporate net income—6% B. Employed capital—3 mills C. Minimum fee—$25	None	None
II. The elimination of "emergency tax," "temporary tax," "emergency tax rate" and "temporary tax rate" classifications by the abolition of certain taxes and the retention of others as parts of the general tax structure.		
A. Emergency taxes to be abolished:		
1. Soft drinks		$13,353,000
2. Corporate net income (treated under I, above)		
B. Emergency taxes to be retained:		
1. Cigaret tax	None	None
2. Liquor tax	None	None
C. Emergency tax rates to be retained:		
1. Additional 6 mills gross receipts	None	None
2. Temporary additional malt beverage rates	None	None
III. The imposition of the following new taxes:		
A. Investment income at 4% (Commonwealth share)	$7,600,000 [1]	
B. Unincorporated business and professional activity at 1½%	24,165,000	
	$31,765,000	$13,353,000
NET COMMONWEALTH GAIN	$18,412,000	

[1] Amount to be distributed among the counties: $17,000,000. County net gain: $7,000,000.

SECTION I

THE COMMONWEALTH TAX SYSTEM

CHANGES IN THE COMMONWEALTH TAX STRUCTURE SINCE 1942

For the fiscal year ending May 31, 1948, total Commonwealth general fund tax revenues yielded approximately $241 million. This was an increase of about $64 million (36 per cent) over the fiscal year 1947, and an increase of about $54 million over the fiscal year 1942. In addition to general fund tax revenues, the Commonwealth also received for general fund purposes, nontax revenues from other sources such as licenses and fees, fines and penalties and institutional and liquor store earnings (totalling nearly $54 million in fiscal 1948). Revenue from institutions, licenses, fees, etc., and the earnings of the liquor stores are not generally considered as "taxes," although high earnings from the liquor stores constitute the equivalent of an additional liquor tax. General fund revenues from various sources[1] for the fiscal year 1948 are shown in Table 1.[2]

Although the Commonwealth's total tax collections have increased substantially during recent years, some of the increase has come without the imposition of new taxes or increases in the rates of old taxes. The total general fund tax revenues increase for fiscal 1948 over fiscal 1947 was $13 million by the soft drinks tax; approximately $30 million by the doubling of cigarette and malt beverages tax rates; about $2 million by elimination of the carry-forward and

[1] By Constitutional amendment, the revenue from the liquid fuels tax must be devoted to highway purposes. See Pennsylvania Constitution, Article IX, Section 18.

[2] For changes in revenue sources since 1942 see Tables 2 and 3.

carry-back provisions in the corporate net income tax and the remainder of the increase (approximately $19 million) from the overall expansion in money income in the national economy.

Taxes on selected products (cigarettes, malt beverages, liquor and soft drinks) occupied a more important position in the general fund tax system in fiscal 1948 than in fiscal 1942. The corporate net income tax now accounts for about one-fourth of total general fund tax revenues.[1] However, the relative importance of the corporate net income tax yield diminished during fiscal 1948, as compared with fiscal 1947, primarily because of the addition of the soft drinks tax, and the increased rates upon cigarettes and malt beverages.

RELATIONSHIP OF STATE TAX RECEIPTS TO INCOME RECEIVED BY RESIDENTS OF PENNSYLVANIA

While the Commonwealth's total tax collections in fiscal 1948 were substantially above those of fiscal 1942, they represented a smaller percentage of 1947 (calendar year) income received by residents of Pennsylvania than was the case in fiscal 1942 (based on calendar 1941 income). State tax collections as a percentage of such income by fiscal years, 1941-1948, for Pennsylvania and neighboring states are shown in Table 4.

The data presented in Table 4 indicate that in neighboring states, as well as in Pennsylvania, state tax revenue as a percentage of income of residents has decreased since 1941. The decrease in Pennsylvania was proportionately greater, however, than in any of the neighboring states.

Comparisons of state tax collections as percentage of income of residents are not particularly revealing. Three

[1] See Table 1.

levels of government—federal, state and local—collect taxes from the typical taxpayer. While it is reasonable to assume that taxpayers with identical taxable incomes will be treated in the same manner for federal tax purposes, regardless of the state in which they reside, the same assumption cannot be made with respect to tax treatment at the state and local level. Local taxes paid by taxpayers with given incomes, or given taxable assets, may vary considerably from state to state. A relatively high ratio of *state* tax collections to income of residents may indicate that (1) the state government is performing some functions that are performed in other states by local units, and/or (2) state and local services to citizens are more extensive in the high ratio state. Hence, *state and local* tax collections as related to income of residents provide more accurate comparisons of tax treatments in the various states than do state tax collections related to income of residents. Table 5 shows the relationships between state and local tax collections and income of residents in Pennsylvania and neighboring states.

COMPARISON OF TAX STRUCTURE OF PENNSYLVANIA AND NEIGHBORING STATES

Table 6 shows the major sources of tax receipts in Pennsylvania and neighboring states. As has been pointed out, Pennsylvania relies heavily upon taxation of selected products and services and the taxation of business with more than 90 per cent of tax revenues (including motor fuels, but excluding social security revenues) coming from these sources. New York employs personal income tax which accounts for about one-fifth of its revenues. New Jersey does not levy a corporation net income tax, but does impose a corporate franchise tax; New Jersey also collects real property taxes at the state level. Ohio employs a general sales tax which occupies a more important relative position in its tax structure than does the corporation net income tax in Pennsylvania. Maryland has an individual income tax, a general sales tax and a real property tax. West Virginia receives more than half of its state revenue from taxing general sales and occupations.

Table 7 shows state-level tax collections per capita for *all states,* Pennsylvania and states bordering on Pennsylvania. Pennsylvania state taxes per capita are about 25 per cent lower than the nation's average, and lower than any neighboring state with the exception of New Jersey.

The appraisal of Pennsylvania's tax structure should not rest wholly on data relating to taxes as a proportion of income or per capita tax payments. The impact of a state's tax system on economic activity must also be judged by such criteria as cost of administration, the costs of taxpayer compliance, the uniformity of application among taxpayers similarly situated, the consequences of taxpayer uncertainty resulting from excessive administrative discretion, the impact of state taxes on patterns of production and consumption, and finally, but by no means least important, the adequacy of the state's revenue sources to meet citizen needs for governmental services. The modifications in the Commonwealth's tax structure which are here recommended take cognizance of these criteria.

SECTION II

CORPORATE TAXES

In the Pennsylvania tax system, taxation of corporate activity is an important source of the Commonwealth's revenue, producing 42 per cent of general fund (tax and non-tax) revenues.

A. THE PRESENT CORPORATE TAX STRUCTURE

The characteristics of Pennsylvania's corporate tax system have been detailed elsewhere.[1] The principal features can be summarized as follows:

(1) Certain specified types of enterprise whose characteristics do not lend themselves to general tax treatment are taxed under special statute. Important in this category are banks and trust companies, subject to the tax on shares but exempt from the corporation net income, capital stock or franchise taxes. Foreign insurance companies are taxed on premiums but are exempt from corporation net income and capital stock assess-

[1] For details of coverage, rates, exemptions and administration see Joint State Government Commission's *First Report on the Tax and Financial Problems of the Commonwealth of Pennsylvania,* January, 1941; Leighton P. Stradley & I. H. Krekstein, *Corporate Taxation and Procedure in Pennsylvania,* Chicago, 1940; James J. Mahon, Jr., *State Taxation of Corporations in Pennsylvania,* Philadelphia, 1948; *A Compilation of the Law Regarding the State Taxation, Revenue and Fiscal Affairs,* Bulletin No. 28 (Revised), Commonwealth of Pennsylvania Legislative Reference Bureau, 1945. S. Leo Ruslander and Frank Wilbur Main, *Pennsylvania Corporation Taxes,* New York, 1933.

ments. Domestic stock insurance companies other than life insurance companies are taxed at a lower rate on premiums but pay the capital stock and net income tax. Domestic stock life insurance companies pay only the capital stock and the net income tax.

(2) Railroad and other utility corporations are included within the scope of general corporate taxes in Pennsylvania. Unlike other corporations, however, utilities (electric power and light, telephone and telegraph, etc.) are exempt from local property taxes and liable for an *in lieu* gross receipts tax. Railroads are subject to a similar gross receipts tax which is *in lieu* of local property taxes except on terminal property in Pittsburgh and Philadelphia.

(3) With no important exceptions other than those described above, all corporations are liable for both a capital stock tax (franchise tax on foreign corporations) and a net income tax.

(4) In addition, all domestic corporations pay a bonus on the amount of capital stock issued and foreign corporations pay a bonus on the amount of capital employed in Pennsylvania.

(5) Domestic corporations or foreign corporations with fiscal offices located in Pennsylvania are liable for the corporate loans tax on behalf of Pennsylvania residents.

1. The Corporate Net Income Tax

The corporate net income tax is roughly equivalent in revenue importance to all other taxes paid by corporations.

The estimated distribution of tax payments by types of corporate business activities is shown in Table 8. It will be observed that manufacturing corporations in Pennsylvania produce about two-thirds of corporate net income tax receipts. Retail merchandising corporations produce the second largest amount of corporate net income yield.

Since its introduction in Pennsylvania in 1935, the corporate net income tax has been closely geared to federal concepts of corporate income. At the present time there are, however, three important exceptions to this general rule:

(1) The federal government recognizes gains and losses on intangible and tangible property, while Pennsylvania recognizes gains and losses on intangible property, and on tangible property if located within the Commonwealth.

(2) The federal government permits corporations a two year carry-back and a two year carry-forward of net operating losses. This carry-back and carry-forward provision was eliminated from the Pennsylvania tax effective as of 1946.

(3) Income for federal tax purposes excludes 85% of inter-corporate dividends. Since 1936 Pennsylvania has excluded all dividends from taxation.

The corporation net income tax is an essential and desirable part of the Pennsylvania tax structure. However, the statutory allocation procedure employed in computing the fraction of the base taxable in Pennsylvania tends to discourage the development of merchandising and selling activities in the Commonwealth.

2. Capital Stock and Franchise Tax

The capital stock tax paid by domestic corporations produced 23 per cent of total corporate tax payments to the general fund in Pennsylvania in the fiscal year ending May 31, 1948. The franchise tax on foreign corporations produced 8 per cent of fiscal 1948 corporation tax payments.

Table 8 shows the distribution (estimated on the basis of a sample of 1,028 corporations) of capital stock and franchise tax payments by types of corporate business activities in Pennsylvania in 1947. On the basis of this sample it appears that manufacturing corporations paid about 57 per cent of the capital stock taxes.

Table 9 shows results of a sample survey of the same 1,028 domestic and foreign corporations filing corporation net income and capital stock or franchise tax returns in Pennsylvania for 1947. Column 5 shows the ratio of capital stock or franchise tax payments to net income tax payments by types of corporate business activity. It is apparent that railroad capital stock tax liabilities are greater in relation to net income tax liabilities than for any other types of business enterprise.

Under Pennsylvania statutes the capital stock and franchise tax liability is determined by applying a millage rate (current rate 5 mills) to ". . . actual value in cash." Actual value in cash is determined by taxing officers in the Department of Revenue on the basis of: (1) value indicated or measured by net earnings or by the profit; (2) value indicated or measured by dividends paid; (3) the actual value indicated or measured by the intrinsic value of assets including good will, franchises and privileges after consideration of the amount of indebtedness; (4) average price of capital stock sold during the taxable year. None of these bases of value can be computed without arbitrary assumptions. The taxpayer's judgment may differ from the judgment of the assessing officer with the result that final tax liabilities are very often settled only after protracted negotiation frequently ending in litigation.

Since the settlement of these tax liabilities is dependent on the judgment of taxing officers and taxpayers with respect to "values," non-uniform treatment of corporations similarly situated is likely to result. A more uniform and more prompt determination of tax liability cannot be assured within the framework of the existing capital stock and franchise tax statutes. Negotiation and delay will continue to characterize Pennsylvania's capital stock and franchise tax settlements so long as these statutes remain in force. This increases the Commonwealth's cost of administration and the expense which the taxpayers must assume in order to secure final tax settlement. In addition, uncertainty as to the amount of the tax liability may impede production and investment planning.

The Pennsylvania capital stock tax fails to satisfy many widely recognized requisites of a "good" tax.

3. The Allocation of Interstate Corporate Activity

For purposes of the net income tax and the franchise tax Pennsylvania's share of interstate corporate activity is determined by use of the "Massachusetts" formula. This formula assigns equal weight to three fractions: the value of tangible property in Pennsylvania divided by the value of all tangible property; wages and salaries paid in Pennsylvania divided by total wages and salaries; and gross receipts assigned to Pennsylvania divided by all gross receipts.

The present Pennsylvania law allows corporations to exclude from the numerator of the gross receipts fraction "those sales negotiated or effected in behalf of the corporation by agents or agencies chiefly situated at, connected with, or sent out from, premises for the transaction of business maintained by the taxpayer outside of the Commonwealth." (P. L. 208, 1935; amended by Act No. 91, 1945.) This determination of gross receipts in accordance with the consummation of sales permits a corporation, most of whose manufacturing activities are conducted in Pennsylvania, to establish an out-of-state sales office, thereby reducing its gross receipts fraction and reducing its Pennsylvania corporate tax liability.

A sample survey of allocation fractions of corporate taxpayers doing business in Pennsylvania reveals that a large number of corporations have gross receipts fractions substantially below the wages and property fractions. This suggests that some corporations engaged in interstate activity have been able, through the operation of present allocation procedures, to reduce the volume of corporate activity attributable to Pennsylvania. Perhaps more important than the loss in Commonwealth revenue, the present definition of sales allocable to Pennsylvania offers positive encouragement to taxpayers to establish sales offices in other states, thus depriving Pennsylvania of economic activity which might otherwise be carried on within the state. The Committee recommends that this encouragement to locate sales offices outside the state be terminated, and that, together with the recommended revision in the method of taxing corporations, a revision be made in the method of computing the gross receipts fraction employed in the allocation of interstate business activity.

B. AN ALTERNATIVE BASE CORPORATE TAX

The taxation of corporate net income should continue to constitute the most important base for determining corporation tax liability in Pennsylvania. This is in keeping with Pennsylvania's successful past practice and also with the successful experience of the federal government and a large number of states. Corporate net income can be ascertained with a minimum of controversy between the taxpayer and the Commonwealth. Pennsylvania can and should continue to utilize, as far as possible, net income as determined for federal purposes. This procedure minimizes taxpayer's cost of compliance and greatly simplifies the administrative work of the Department of Revenue since it increases the usefulness of information exchanged with the Federal Bureau of Internal Revenue.

However, where corporate taxation is an important part of the Commonwealth's revenue structure, and where that taxation depends heavily on net income, the Commonwealth will experience sharp fluctuations in revenue in accordance with changes in the level of national income and employment. A limit may be set to these fluctuations by the addition of a tax base alternative to net income. A convenient base for this purpose is "employed capital," defined as total capital less short term liabilities. A low millage rate should be applied to this base and the taxpayer required to pay the higher amount.

A third alternative should be utilized for purposes of assuring that every corporation contributes a minimum amount to offset the Commonwealth's administrative costs consequent upon the exercise of the privilege of doing business within the state. Twenty-five dollars would seem to be a reasonable minimum payment.

An alternative base corporate tax in Pennsylvania modeled along the lines suggested would require corporations to pay in any one year, whichever of the following levies produces the highest yield:

(1) a statutory percentage of net income;

(2) a millage rate imposed upon "employed capital";

(3) a flat sum of $25.

Table 10 shows estimates of total yield and the estimated distribution of tax payments by types of business activity resulting from the application of an alternative base franchise tax in Pennsylvania.

These estimates have been computed on the basis of the following assumptions, definitions and rates:

(1) *Taxable Corporations*—All corporations, joint stock associations and limited partnerships which are now subject to the capital stock and franchise tax in Pennsylvania.

(2) *Net Income* (taxable at the rate of 6%) (a) as reported to or as ascertained by the federal government, minus all dividends received and excluding gains or losses on the sale of tangible assets; the gains or losses of tangible assets located in Pennsylvania to be added to income as allocated in accordance with the procedure outlined under (4), below. The net income determined in the indicated manner shall be the taxable income of the corporation

unless

the following computation yields a larger sum: (b) Add to the net income as computed under (a), above, the compensation paid to elected and appointed officers, and to stockholders individually owning in excess of 5% of the corporation's issued stock, deduct from the sum so obtained $15,000, and multiply the difference by .30; allocate the product on the basis of the procedure outlined under (4), below.

(3) *Employed Capital*—All assets other than investment in stock of other corporations, minus liabilities which are payable on demand or within one year from the date incurred.

(4) *Allocation of Net Income and Employed Capital*—Net income and employed capital to be allocated by a three-factor formula which assigns equal weight to each of the following factors:

a. The value of tangible property located in Pennsylvania divided by the value of all tangible property.

b. Wages and salaries paid in Pennsylvania divided by total wages and salaries paid.

c. Gross receipts assignable to Pennsylvania divided by total gross receipts.

The property and wage factors are to be determined in accordance with present Pennsylvania procedure.

The gross receipt factor is to be calculated on the basis of the origin of the services performed or the goods shipped. Receipts from sales of tangible property are to be assigned to Pennsylvania if the property was located within the Commonwealth at the time of sale or if it was not located in the Commonwealth at the time of sale nor at any permanent place of business maintained by the taxpayer outside the state.

Table 10 shows the distribution of the tax liability of corporations engaged in different types of activities if the Committee's plan had been in effect in 1947.

The alternative base corporate tax has marked advantages when compared with Pennsylvania's existing corporation tax structure.

The Tax Study Committee is confident that the change from present methods of taxing corporations to the alternative base method proposed here could be accomplished with a minimum of inconvenience and expense to the taxpayer and to the Commonwealth.

SECTION III

STATE-COLLECTED TAX ON INVESTMENT INCOME

Pennsylvania residents are currently subject to a county tax of four mills on the market value of certain classes of intangible personal property.

Shares of stock in banks, domestic corporations and foreign corporations which are liable to the capital stock, franchise or shares tax and public loans issued by this Commonwealth, its political subdivisions and the United States are exempt from the county personal property tax.

It has long been recognized that the county taxation of personal property in Pennsylvania is subject to many administrative difficulties. During the years in which the state levied a tax on personal property, the counties frequently employed state assessment rolls. Since the repeal of the state tax, counties have not had recourse to this administrative assistance. Collections of the county personal property tax have varied widely from year to year.[1] In one case a county has doubled its personal property tax collections within a single year, and, in a few other cases, the yield was cut in half within a year. Ratios of collections to levies show extreme variation among the counties and within the same county over a period of years.[2]

Apart from difficulties of collection, the county personal property tax in Pennsylvania is not uniformly assessed or employed among the several counties.[3] A comparison of

[1] See Table 11.
[2] See Table 12.
[3] See Table 13.

levies in 1947 in Pennsylvania counties generally similar in economic structure and income distribution reveal some marked discrepancies. For example, per capita levies in York County were $.79, while in Montgomery County they were $4.17. Similarly, Crawford County levies were $1.03 per capita while Schuylkill County levies were $.22 per capita.

Not all of the fluctuation in revenue may be attributed to inconsistant administration. The securities of a foreign corporation may be removed from the county tax rolls if that corporation decides to register in Pennsylvania and become subject to Pennsylvania corporate taxes. Or some wealthy individuals may transfer their residence, suddenly depriving the county of a substantial portion of its tax collections from this source. In short, even if well administered, the personal property tax is an unstable source of county revenue.

In addition, its economic impact is not always satisfactory. A tax on the market value of securities is only indirectly related to the yield from securities. In periods of economic recession the security-holder may receive no dividends, yet still be subject to taxation. Furthermore, a four-mill tax on market value is a comparatively heavy tax burden. For example, the holder of a security of $100 market value, paying $4 a year in dividends, would be liable for an annual tax of 40 cents, which is 10 per cent of its yield.

There has been a growing tendency for state legislatures to eliminate the ad valorem assessment of intangible and tangible personal property. Many state and local governments have abandoned ad valorem taxation of intangibles because of the difficulties of assessment and collection, and because state taxation of intangible property on an income basis produces a more equitable distribution of tax burden.

For these reasons, the Committee recommends that (1) the county personal property tax be repealed and that a Commonwealth tax on investment income be substituted therefore; (2) the base of the tax consist of all net rents, royalties and dividends received by Pennsylvania residents and all interest received by Pennsylvania residents with the exception of interest from federal, Commonwealth of Pennsylvania and Pennsylvania municipal securities; and (3) the tax on investment income be imposed at the rate of 4 per cent. Such a tax would produce estimated revenues of $24,600,000 annually at 1948 levels of investment income.

The Committee recommends that the proceeds of the investment income tax be distributed as follows:

A. Distribute to each county an amount equal to its average annual collections from the county personal property tax for the period 1943-47[1] which would absorb $10,000,000 of the estimated annual revenue of $24,600,000.

B. Distribute an additional $7,000,000 of this revenue among the counties on the basis of the ratio investment income tax collections within a given county to total investment income tax collections.

C. Assign the remainder of this revenue, approximately $7,600,000, to the Commonwealth for general fund purposes.

The repeal of the county personal property tax and the substitution of a state-collected tax on investment income

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[1] See Table 14.

would bring about the following improvements in the state-local tax structure in Pennsylvania:

1. Administrative efficiency in the assessment and collection of taxes on personal property would be improved. One collection agency—the Department of Revenue—would be substituted for the collection mechanisms now employed in Pennsylvania's 67 counties. Through an exchange of information with the Federal Bureau of Internal Revenue the Pennsylvania Department of Revenue could audit tax returns and determine tax liabilities with a minimum of administrative expense.

2. Intangibles taxation in Pennsylvania would be broadened to include all types of investment income from all sources.

3. The taxation of intangible property would be placed on an income rather than a capital base.

The committee is cognizant of the fact that the removal of personal property from county assessment rolls would reduce the borrowing capacity of Pennsylvania counties. Maximum county indebtedness is now limited to 10 per cent of assessed valuations for county tax purposes. Specifically, for all counties except Philadelphia, no indebtedness in excess of 2 per cent may be incurred without the consent of the electors and total indebtedness may not exceed 7 per cent of assessed valuations unless the increased indebtedness is incurred to purchase or construct waterworks, subways, underground railways, or street railways or the appurtenances thereof.[1]

[1] The 7 per cent limit except for the purchase or construction of certain public works has been sustained by the court in Borough of Summit Hill vs. Com., Dauphin County, No. 488, 1941, Commonwealth docket.

Examination of the records of the Department of Internal Affairs reveals that, on a 7 per cent basis, the total debt limit of all counties except Philadelphia was $551 million in 1947. With a total county debt of $92 million, there was an unused borrowing capacity of $459 million. The removal of personal property from the assessment rolls would reduce the unused borrowing capacity to $328 million.[1]

The reduction in county borrowing capacity occasioned by the removal of personal property from assessment rolls could be rectified by the realistic assessment of real property.

Available evidence suggests that the average ratio of assessed value to market value of Pennsylvania real property does not exceed 50 per cent. Realistic assessment of real property would produce an aggregate unused borrowing capacity of $721 million *after* the removal of personal property from county assessment rolls.

The debt limit of Philadelphia, on a 10 per cent basis, was $341 million in 1947. With a net debt of $321 million, there was an unused borrowing capacity of $20 million. The removal of personal property from the assessment rolls, which would reduce the debt limit $71 million, would eliminate the borrowing capacity. However, realistic assessment of real property (assuming that the present ratio of assessed value to market value is .60) would produce an unused borrowing capacity of $129 million *after* the removal of personal property from the assessment rolls.

In addition, the effect on borrowing capacity of removing intangibles from assessment rolls could be offset by constitutional amendment and enabling statute to raise the limit of permitted county borrowing from a maximum of 10 per cent to some higher ratio of assessed values.

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[1] Also see Table 15.

SECTION IV

TAX ON UNINCORPORATED BUSINESS AND PROFESSIONAL ACTIVITY

To secure a more uniform application of Commonwealth taxes to all types of business enterprise, the Committee recommends the enactment of a levy on the net income of unincorporated business and professional activity at the rate of one and one-half per cent. The Committee feels that this type of economic activity should make some contribution to the Commonwealth general fund, although at a lower rate than corporate activity. The advantages of the corporate form, particularly those inherent in the limited liability of stockholders, would appear to justify a higher rate of tax than in the case of unincorporated business and professional activity.

The Committee estimates that, at a one and one-half per cent rate, this tax would yield approximately $24,165,000 annually at 1948 levels of income. It is recommended that the revenue from this levy be assigned to the general fund of the Commonwealth.

To simplify the administration of this tax the income of unincorporated enterprises and of professionals should be defined in accordance with the concepts employed in the determination of corporate net income. The income derived from interstate operations should be allocated to Pennsylvania in the same manner as the allocation of interstate corporate income.

SECTION V

"EMERGENCY" OR "TEMPORARY" TAXES

It is anamolous to continue to describe as "emergency" or "temporary" those Commonwealth taxes which now account for 44 per cent of general fund revenues. Because these taxes have been continued as "emergency" measures, they have contributed an element of instability to the tax system. In general, the Committee is opposed to the singling out of any commodity for tax purposes. However, the Committee recommends the continuation of emergency rates and emergency taxes, other than the soft drink tax because: (1) they have come to be an integral and accepted part of the tax system and (2) a substantial group of citizens does not regard these commodities as necessities and therefore approves their taxation as luxuries.

With the exception of the soft drinks tax, "emergency" and "temporary" taxes and tax rates should be made a permanent part of the Commonwealth's tax structure. This will relieve the General Assembly of the necessity for re-enactment of a major part of the Commonwealth's tax system at successive sessions of the Legislature.

TABLE 1

Pennsylvania General Fund Revenues, Fiscal Year Ending May 31, 1948 *

	Thousands of Dollars	*Percent*
(1)	*(2)*	*(3)*
General Taxes:		
Bonus	$1,815	.62
Capital Stock, Domestic	28,586	9.70
Capital Stock, Foreign	10,325	3.50
Tax on Shares[1]	3,439	1.17
Loan Tax	2,021	.68
Gross Receipts[2]	5,034	1.71
Insurance Premiums	10,450	3.55
Malt Beverages[3]	25,104	8.52
Miscellaneous[4]	1,058	.36
Total General Taxes	$87,832	29.81
Inheritance Taxes	22,900	7.77
Emergency Taxes:		
Cigarettes	$37,348	12.67
Soft Drinks[5]	13,353	4.53
Corporate Net Income[5]	58,424	19.83
Gross Receipts[6]	3,636	1.23
Liquor	17,509	5.94
Other Emergency[7]	24	.01
Total Emergency Taxes	$130,294	44.21
License and Fees	5,074	1.72
Fines and Penalties	633	.21
Miscellaneous Revenue	2,239	.76
Institutional Revenue	8,223	2.79
Liquor Store Profits	37,500	12.73
TOTAL GENERAL FUND REVENUE	$294,695	100.00

* SOURCE: Pennsylvania Budget Bureau.

[1] Includes tax on stock building and loan associations.

[2] Private bankers, boxing and wrestling, motor transportation and 8 mills on transportation, power and transmission.

[3] According to statute (Act No. 101, 1947) the present tax rates (biennium 1947-1949) on malt beverages are temporary and double the ordinary rates.

[4] Includes tax on net income of savings fund societies, stock transfer tax, tax on writs, wills and deeds, mercantile license, penalties and interest on general taxes and miscellaneous general taxes.

[5] Includes penalties and interest.

[6] Six mill temporary tax on gross receipts of transportation, power and transmission companies.

[7] Includes state personal property, documentary stamp tax, loans tax, tax on bank shares.

TABLE 2

Pennsylvania General Fund Revenues, Fiscal Years 1942, 1945-1948 *

	1942	1945	1946	1947	1948
		Fiscal Year Ending May 31 (Thousands of Dollars)			
(1)	(2)	(3)	(4)	(5)	(6)
General Taxes:					
Bonus	695	446	704	1,895	1,815
Capital Stock, Domestic	23,603	23,695	22,584	22,355	28,586
Capital Stock, Foreign	11,049	9,844	9,143	8,836	10,325
Tax on Shares[1]	3,900	2,410	3,170	4,734	3,439
Loans Tax	5,059	4,938	2,691	2,058	2,021
Gross Receipts[2]	3,888	3,028	4,302	4,211	5,034
Insurance Premiums ..	8,424	8,362	9,296	9,450	10,450
Malt Beverages[3]	8,615	10,374	11,361	11,834	25,104
Mercantile	3,872	....	....	....	....
Miscellaneous[4]	1,655	1,769	1,492	1,226	1,058
Total General Taxes ..	70,760	64,866	64,743	66,599	87,832
Inheritance Taxes	13,307	18,362	19,613	19,167	22,900
Emergency Taxes:					
Cigarettes	13,727	12,322	16,882	20,988	37,348
Gasoline	16,668	11,073	1,204	4	....
Soft Drinks[5]	....	....	....	....	13,353
State Personal Property	9,960	....	....	....	....
Corporate Net Income[5]	39,919	63,180	42,940	50,662	58,424
Gross Receipts[6]	5,675	4,332	2,977	3,015	3,636
Liquor	10,511	13,576	14,464	16,511	17,509
Other Emergency[7]	6,101	1,537	242	99	24
Total Emergency Taxes	102,561	106,020	78,709	91,279	130,294
Licenses and Fees	3,858	4,682	4,715	5,268	5,074
Fines and Penalties	479	303	359	542	633
Miscellaneous Revenue ..	2,325	2,139	2,578	4,182	2,239
Institutional Revenue ...	6,597	6,484	6,838	8,922	8,223
Liquor Store Profits	18,000	20,500	23,000	36,000	37,500
Total General Fund Revenue	217,887	223,356	200,555	231,959	294,695

* SOURCE: Pennsylvania Budget Bureau.

[1] Includes Tax on stock building and loan associations.

[2] Private bankers, boxing and wrestling, motor transportation, and 8 mills on transportation, power and transmission.

[3] According to statute (Act No. 101, 1947) the present tax rates (biennium 1947-49) on malt beverages are temporary and double the ordinary rates.

[4] Includes tax on net income of saving fund societies, stock transfer tax, tax on writs, wills and deeds, mercantile license, penalties and interest on general taxes and miscellaneous general taxes.
[5] Includes penalties and interest.
[6] Six mill temporary tax on gross receipts of transportation, power and transmission companies.
[7] Includes state personal property, documentary stamp tax, loans tax, tax on bank shares.

TABLE 3

Pennsylvania General Fund Revenues, Fiscal Years 1942, 1945-1948* as Percentages of General Fund Revenue

Type of Tax	Fiscal Year Ending May 31 1942	1945	1946	1947	1948
(1)	(2)	(3)	(4)	(5)	(6)
General Taxes:					
Bonus	.32	.20	.35	.82	.62
Capital Stock, Domestic	10.83	10.61	11.26	9.64	9.70
Capital Stock, Foreign	5.07	4.41	4.56	3.81	3.50
Tax on Shares[1]	1.79	1.08	1.58	2.04	1.17
Loans Tax	2.32	2.21	1.34	.89	.68
Gross Receipts[2]	1.79	1.35	2.15	1.82	1.71
Insurance Premiums	3.87	3.74	4.64	4.07	3.55
Malt Beverages[3]	3.95	4.64	5.66	5.10	8.52
Mercantile	1.78	....	....	....	....
Miscellaneous[4]	.76	.79	.74	.53	.36
Total General Taxes	32.48	29.03	32.28	28.72	29.81
Inheritance Taxes	6.11	8.22	9.78	8.26	7.77
Emergency Taxes:					
Cigarettes	6.30	5.52	8.42	9.05	12.67
Gasoline	7.65	4.96	.60	**	....
Soft Drinks[5]	....	....	....	....	4.53
State Personal Property	4.57	....	....	....	....
Corporate Net Income[5]	18.32	28.29	21.41	21.84	19.83
Gross Receipts[6]	2.60	1.94	1.48	1.30	1.23
Liquor	4.82	6.08	7.21	7.12	5.94
Other Emergency[7]	2.80	.69	.12	.04	.01
Total Emergency	47.06	47.48	39.24	39.35	44.21
Licenses & Fees	1.77	2.10	2.35	2.27	1.72
Fines and Penalties	.22	.13	.18	.23	.21
Miscellaneous Revenue	1.07	.96	1.29	1.80	.76
Institutional Revenue	3.03	2.90	3.41	3.85	2.79
Liquor Store Profits	8.26	9.18	11.47	15.52	12.73
Total General Fund Revenue	100.00	100.00	100.00	100.00	100.00

See Next Page for Footnotes.

* SOURCE: Pennsylvania Budget Bureau.

** Less than .01 per cent.

[1] Includes tax on stock building and loan associations.

[2] Private bankers, boxing and wrestling, motor transportation, and 8 mills on transportation, power and transmission.

[3] According to statute (Act No. 101, 1947) the present tax rates (biennium 1947-49) on malt beverages are temporary and double the ordinary rate.

[4] Includes tax on net income of saving fund societies, stock transfer tax, tax on writs, wills and deeds, mercantile license, penalties and interest on general taxes and miscellaneous general taxes.

[5] Includes penalties and interest.

[6] Six mill temporary rate on gross receipts of transportation, power and transmission companies.

[7] Includes state personal property, documentary stamp tax, loans tax, tax on bank shares.

TABLE 4

State Tax Revenues as Percentages of Total Income of Pennsylvanians and Residents of Neighboring States; 1941-1948 *

	1941	*1942*	*1943*	*1944*	*1945*	*1946*	*1947*	*1948*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pennsylvania	4.3	3.9	3.1	2.7	2.4	2.3	2.4	2.6
New York	4.1	3.6	3.2	3.0	3.2	3.3	2.8	2.7
New Jersey	3.1	2.8	2.2	2.0	2.9	2.7	2.5	2.4
Ohio	4.5	4.0	3.2	2.6	2.6	2.7	3.1	3.1
Maryland	3.9	3.2	2.5	1.9	2.0	2.3	2.4	3.5[1]
West Virginia ...	6.8	6.3	4.9	4.3	4.0	4.2	4.5	4.7

* Revenues are for fiscal years, Income Payments for previous calendar year. Fiscal years end June 30 of given year for Maryland, New Jersey and West Virginia. Fiscal year ends May 31 in Pennsylvania and March 31 in New York. Ohio fiscal year ends December 31 of previous year.

[1] Maryland levied general Sales Tax effective July 1, 1947. Maryland's total tax yield rose 49% over 1947.

SOURCE: Income: *Survey of Current Business,* August 1948. Revenue: State Finances—U. S. Bureau of the Census.

TABLE 5

State and Local Tax Revenues as Percentages of Total Income of Pennsylvanians and Residents of Neighboring States, 1941-1946 *

	1941	*1942*	*1943*	*1944*	*1945*	*1946*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pennsylvania	9.5	8.3	6.8	5.9	5.4	5.2
New York	12.2	10.4	8.9	7.7	7.7	7.2
New Jersey	11.6	10.2	7.9	6.9	7.6	7.4
Ohio	9.9	8.5	6.9	5.7	5.5	5.5
Maryland	8.8	7.2	5.5	4.5	4.6	4.9
West Virginia	10.6	9.4	7.7	6.7	6.2	6.2

* State revenues are for fiscal years, local revenues and income payments for previous calendar years. Fiscal years end June 30 of given year for Maryland, New Jersey and West Virginia. Fiscal year ends May 31 in Pennsylvania and March 31 in New York. Ohio fiscal year ends December 31 of previous year.

SOURCE: Income: *Survey of Current Business,* August, 1948. State Revenue: State Finances—U. S. Bureau of Census. Local Revenue: National Industrial Conference Board.

TABLE 6

Major Sources of State Tax Revenue as Percentages of Total Tax Revenue in Pennsylvania and Neighboring States, 1941, 1944 and 1948

Type of Tax	*Pennsylvania*			*New York*			*New Jersey*		
	1941	*1944*	*1948*	*1941*	*1944*	*1948*	*1941*	*1944*	*1948*
General Sales or Gross Receipts	.0	.9	.0	.0	.0	.0	.0	.0	.0
Selected Commodities and Services	17.7	19.7	30.6	21.4	23.5	24.1	13.7	15.9	36.0
Motor Vehicle Fuels	24.5	17.2	18.6	15.4	8.6	10.9	25.8	14.3	17.4
Licenses and Privileges	33.3	29.4	28.0	18.3	14.8	13.7	28.3	32.0	26.9
Individual Income	.0	.0	.0	23.7	19.4	19.1	.0	.0	.0
Corporation Net Income	11.1	23.8	15.6	11.8	26.1	23.5	.0	.0	.0
Property	7.0	2.7	.5	.5	.3	.2	26.9	26.3	14.4
Deaths and Gifts	6.2	6.0	6.4	5.7	3.6	4.9	5.3	11.5	5.3
Miscellaneous	.2	.3	.3	3.2	3.7	3.6	.0	.0	.0
All Tax Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: State Finances—U. S. Bureau of Census.

Table Continued on Next Page.

TABLE 6 (*Continued*)

Major Sources of State Tax Revenue as Percentages of Total Tax Revenue in Pennsylvania and Neighboring States, 1941, 1944 and 1948

Type of Tax	*Ohio*			*Maryland*			*West Virginia*		
	1941	*1944*	*1948*	*1941*	*1944*	*1948*	*1941*	*1944*	*1948*
General Sales or Gross Receipts	28.2	28.7	35.9	.0	.0	22.9	51.1	63.5	59.0
Selected Commodities and Services	21.8	26.2	21.2	22.4	27.7	20.8	3.5	5.2	11.1
Motor Vehicle Fuels	25.6	18.3	19.4	26.6	20.5	18.3	21.5	14.5	16.1
Licenses and Privileges	20.0	19.1	16.5	18.7	17.7	12.4	15.7	14.4	11.8
Individual Income	.0	.0	.0	11.0	14.1	14.9	3.4	.2	.0
Corporation Net Income	.0	.0	.0	3.5	6.8	3.9	.0	.0	.0
Property	3.2	4.7	4.4	12.9	8.3	3.4	.5	.3	.2
Deaths and Gifts	1.2	3.0	2.6	4.3	4.3	2.7	3.2	.8	1.1
Miscellaneous	.0	.0	.0	.6	.6	.7	1.1	1.1	.7
All Tax Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: State Finances—U. S. Bureau of Census.

TABLE 7

State Tax Collections, Selected States, Total Amounts and Per Capita, 1948

Name of State	*Total Tax Collections Excluding Unemployment Compensation Tax (in millions)*	*Population July 1, 1947 (estimated)*	*Total Tax Collections Per Capita*
(1)	(2)	(3)	(4)
All states	$6,807	142,553,000	$47.75
Pennsylvania	375	10,512,000	35.67
New York	703	14,165,000	49.63
New Jersey	159	4,627,000	34.36
Ohio	348	7,675,000	45.34
West Virginia	91	1,882,000	48.35
Maryland	103	2,139,000	48.15

SOURCE: Columns (1) and (2) U. S. Bureau of the Census, *State Tax Collections in 1948* (State Finances: 1948, No. 4), Washington, D. C., August, 1948. Column (3) computed.

TABLE 8

Pennsylvania Corporate Tax Liabilities by Types of Business Activity, as Per Cent of Total Collections, 1947

Type of Business Activity	*Income Tax*	*Capital Stock or Franchise Tax*	*Income Tax Plus Capital Stock or Franchise Tax*
(1)	(2)	(3)	(4)
(1) Mining	4.40%	6.96%	5.30%
(2) Manufacturing	66.27	56.75	62.89
(3) Public Utilities (excluding railroads)	1.44	2.93	1.97
(4) Wholesale Trade	6.05	5.54	5.87
(5) Retail Trade	11.84	9.90	11.16
(6) Service	4.19	3.25	3.86
(7) Finance	1.09	2.04	1.42
(8) Real Estate	.99	1.61	1.21
(9) Construction	1.76	1.44	1.65
(10) Agriculture	.08	.08	.09
(11) Miscellaneous	.19	.10	.15
(12) Railroads	1.70	9.40	4.43
Total	100.00	100.00	100.00

SOURCE: Based on a study of 1,028 corporation tax returns filed with the Department of Revenue.

NOTE: The sample of 1,028 corporation tax returns, which provides the basis for the estimates, was selected from the files of the Department of Revenue. The processing techniques applied by the Department to various categories of returns affected somewhat their availability for sampling. It was therefore necessary to divide the tax returns with respect to their position in the taxing process. The returns at different stages of processing were not strictly homogeneous with respect to income size and in some cases were not completely available for sampling. About 3 per cent of the returns in all but one group were selected at random as far as the filing system of the Department of Revenue permitted.

Because of the small number of companies involved the sampling technique was not applied to railroads. The 139 companies represent all railroads and affiliated companies operating in Pennsylvania.

The nature of the filing system of the Department of Revenue made it impossible to test the sample by statistical methods. However the result of alternative computations tends to establish the reliability of the yield estimates.

TABLE 9

Pennsylvania Corporate Tax Liabilities by Types of Business Activity, 1947

(Based on Sample of 1,028 Corporations)

Type of Business Activity	*Number of Corporations*	*Income Tax Liability*	*Capital Stock or Franchise Tax Liability*	*Ratio of Capital Stock or Franchise Tax to Income Tax*
(1)	(2)	(3)	(4)	(5)
1. Mining	39	$70,206	$60,740	.87
2. Manufacturing ..	303	1,056,840	495,744	.47
3. Public Utility (excluding railroads).	40	22,938	25,605	1.12
4. Wholesale	76	96,463	48,378	.50
5. Retail	143	188,719	86,497	.46
6. Service	97	66,858	28,382	.42
7. Finance	51	17,435	17,830	1.02
8. Real Estate	97	15,902	14,052	.88
9. Construction	27	28,141	12,613	.45
10. Agriculture	8	1,356	698	.51
11. Miscellaneous ...	8	3,022	846	.28
12. Railroads	139	$1,214,910	$3,671,627	3.02

SOURCE: Tax returns filed with Department of Revenue.
See NOTE, Table 8.

TABLE 10

Estimated Yield of Alternative Base Corporate Tax, 1947

Type of Business Activity	Total No. of Corps. in Sample	Taxable on Income at Rate of .06: No. of Corps.	Taxable on Income at Rate of .06: Amount of Tax	Taxable on Employed Capital at Rate of .003: No. of Corps.	Taxable on Employed Capital at Rate of .003: Amount of Tax	Taxable at Minimum Amount of $25: No. of Corps.	Taxable at Minimum Amount of $25: Amount of Tax	Total Amount of Tax	Per Cent of Total Tax
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1. Mining	39	18	$85,117	10	$39,338	11	$275	$124,730	4.94
2. Manufacturing	303	197	1,462,520	69	87,465	37	925	1,550,910	61.37
3. Public Utilities (excluding railroads)	40	17	33,576	12	12,624	11	275	46,475	1.84
4. Wholesale Trade	76	54	143,781	13	2,784	9	225	146,790	5.81
5. Retail Trade	143	99	282,449	24	4,174	20	500	287,123	11.36
6. Service	97	57	98,167	22	7,088	18	450	105,705	4.18
7. Finance	51	26	24,891	11	4,046	14	350	29,287	1.16
8. Real Estate	97	28	20,035	39	12,536	30	750	33,321	1.32
9. Construction	27	18	41,294	4	3,846	5	125	45,265	1.79
10. Agriculture	8	5	2,029	2	63	1	25	2,117	.08
11. Miscellaneous	8	1	4,533	..	.....	7	175	4,708	.19
12. Railroads	139	23	910,372	89	5,826,735	27	675	6,737,782	5.96
Total Corporations	1028								
Per Cent of Total			87.80		12.04		.16		100.00

SOURCE: Computed from tax returns filed with the Department of Revenue.
See NOTE, Table 8.

TABLE 11

Personal Property Tax Collections, Selected Counties, 1938-1947

(In thousands of dollars)

Counties	*1938*	*1939*	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*	*1946*	*1947*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Allegheny	$2,292.7	$2,301.7	$2,308.3	$1,910.4	$1,694.7	$1,559.4	$1,624.8	$1,707.0	$2,007.7	$1,932.1
Berks	256.5	245.8	239.2	227.4	207.6	191.9	188.5	188.6	212.3	208.9
Clarion	31.3	30.2	28.6	25.3	20.1	18.7	20.1	21.6	27.3	24.6
Dauphin	167.7	168.8	160.4	158.1	138.8	140.7	151.2	182.5	119.2	130.3
Lackawanna ...	263.3	207.5	184.1	150.3	129.5	131.3	121.4	143.2	143.6	136.0
Luzerne	287.0	89.9	262.9	259.0	170.5	141.1	143.5	142.8	160.5	148.5
Montgomery ...	1,272.7	947.9	1,161.2	1,095.3	884.0	905.3	1,065.2	1,082.7	1,322.1	1,341.2
Northumberland	56.0	56.4	53.6	48.5	43.4	41.2	39.3	39.2	37.8	42.4
Philadelphia ...	3,704.9	3,374.1	3,276.3	2,950.5	2,604.5	2,396.7	2,524.3	2,651.9	3,036.7	2,868.7
Snyder	3.8	3.9	3.9	3.6	3.2	2.7	1.9	1.4	1.7	1.4
Susquehanna ...	30.5	15.2	18.7	13.2	13.5	11.4	10.0	10.1	11.3	9.2
Venango	227.3	229.0	226.9	194.4	146.2	137.5	178.2	195.1	238.7	210.7

SOURCE: Department of Internal Affairs.

TABLE 12

Ratio of Personal Property Tax Collections to Personal Property Tax Levies, Selected Counties, 1938-1947

Counties	*1938*	*1939*	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*	*1946*	*1947*	*Average Ratio*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Allegheny	93%	88%	95%	95%	95%	95%	94%	95%	94%	95%	94%
Berks	91	92	93	93	94	94	93	94	98	98	94
Clarion	103	108	95	98	93	98	94	95	99	94	98
Dauphin	95	94	96	101	98	107	114	150	99	114	107
Lackawanna ...	98	77	70	75	65	94	101	100	100	95	88
Luzerne	100	[1]	122	132	102	94	97	94	98	101	104
Montgomery ...	131	89	104	104	94	96	99	95	100	99	101
Northumberland	92	97	95	95	95	96	93	96	91	108	96
Philadelphia ...	103	93	102	100	94	101	100	101	101	101	100
Snyder	83	89	91	97	100	90	90	78	131	93	94
Susquehanna ...	167	74	103	91	94	100	95	94	97	98	101
Venango	94	96	96	94	95	95	95	96	98	98	96

SOURCE: Department of Internal Affairs.

[1] Not available.

TABLE 13

County Personal Property Tax Levies Per Capita, 1947

Counties	Dollars Per Capita	Counties	Dollars Per Capita
(1)	(2)	(3)	(4)
Adams	$.34	Juniata	$.17
Allegheny	1.31	Lackawanna	.60
Armstrong	.21	Lancaster	.75
Beaver	.24	Lawrence	.50
Bedford	.20	Lebanon	.47
Berks	.87	Lehigh	.88
Blair	.30	Luzerne	.35
Bradford	.56	Lycoming	.63
Bucks	1.16	McKeane	1.71
Butler	.89	Mercer	.64
Cambria	.21	Mifflin	.26
Cameron	.70	Monroe	1.04
Carbon	[1]	Montgomery	4.17
Centre	.47	Montour	.31
Chester	1.95	Northampton	.85
Clarion	.68	Northumberland	.33
Clearfield	.29	Perry	.19
Clinton	.46	Philadelphia	1.34
Columbia	.25	Pike	1.21
Crawford	1.03	Potter	.18
Cumberland	.54	Schuylkill	.22
Dauphin	.58	Snyder	.08
Delaware	1.73	Somerset	.27
Elks	.38	Sullivan	.12
Erie	.56	Susquehanna	.29
Fayette	.23	Tioga	.38
Forest	.18	Union	.40
Franklin	.59	Venango	3.41
Fulton	.02	Warren	1.28
Greene	.30	Washington	.42
Huntingdon	.27	Wayne	.40
Indiana	.05	Westmoreland	.56
Jefferson	.34	Wyoming	.35
		York	.79

[1] Not available.

SOURCE: Department of Internal Affairs.

TABLE 14

County Personal Property Tax Collections 1943-1947

(In thousands of dollars)

Counties	*1943*	*1944*	*1945*	*1946*	*1947*	*Average*
Adams	$19.6	$15.5	$14.8	$14.3	$15.7	$16.0
Allegheny	1,559.4	1,624.8	1,707.0	2,007.7	1,931.1	1,766.0
Armstrong	18.7	17.7	17.8	18.0	16.2	17.7
Beaver	37.1	41.3	43.0	46.1	38.9	41.3
Bedford	10.4	8.8	8.8	9.1	6.8	8.8
Berks	191.9	188.5	188.6	212.3	208.9	198.0
Blair	44.0	44.8	42.7	47.7	47.9	45.4
Bradford	24.8	26.6	25.5	29.8	28.8	27.1
Bucks	130.1	129.2	132.2	162.7	158.3	142.5
Butler	65.9	67.1	73.8	85.8	81.9	74.9
Cambria	44.6	42.3	47.0	51.4	44.2	45.9
Cameron	4.8	5.0	4.7	5.5	5.0	5.0
Carbon	17.5	15.6	16.0	17.9	[1]	16.8
Centre	21.6	19.9	22.7	25.1	23.4	22.5
Chester	213.0	233.8	255.6	287.2	274.1	252.7
Clarion	18.7	20.1	21.6	27.3	24.6	22.5
Clearfield	22.9	25.1	22.5	23.3	21.1	23.0
Clinton	13.6	14.1	15.3	16.3	15.9	15.0
Columbia	15.6	16.3	13.3	14.1	12.9	14.4
Crawford	61.9	71.4	76.6	89.8	79.9	75.9
Cumberland	44.9	41.6	45.6	42.2	43.6	43.6
Dauphin	140.7	151.2	182.5	119.2	130.3	144.8
Delaware	493.7	537.3	538.9	655.1	685.2	582.0
Elk	13.8	14.7	15.0	16.3	14.4	14.8
Erie	128.0	117.4	128.5	139.5	126.0	127.9
Fayette	35.6	33.3	31.6	41.8	42.1	36.9
Forest	2.0	1.2	1.3	1.2	.9	1.3
Franklin	[1]	42.0	38.4	38.8	42.5	40.4
Fulton	1.4	.7	.6	.4	.5	.7
Greene	14.3	14.3	15.9	15.0	15.4	15.0
Huntingdon	11.4	12.3	11.7	11.7	11.1	11.6
Indiana	12.1	9.8	8.4	7.0	8.8	9.2
Jefferson	15.1	15.4	15.3	19.1	16.8	16.3
Juniata	3.6	3.4	3.1	3.2	2.8	3.2
Lackawanna	131.3	121.4	143.2	143.6	136.0	135.1
Lancaster	196.6	180.2	171.4	180.4	170.7	179.9
Lawrence	53.1	47.6	49.3	51.2	46.7	49.6

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