TAX STRUCTURE
AND
REVENUES

of the

GENERAL FUND

of

THE COMMONWEALTH OF PENNSYLVANIA

1913-1943

A Report to

THE JOINT STATE GOVERNMENT COMMISSION

(OF THE GENERAL ASSEMBLY)

by its

COMMITTEE ON CONTINUATION

OF THE TAX STUDY

REPORT NO. 8
JUNE 23, 1944

CAPITOL BUILDING
HARRISBURG, PA.

JOINT STATE GOVERNMENT COMMISSION

OF

THE GENERAL ASSEMBLY

(Created in 1937, P. L. 2460, as last amended 1943, P. L. 13)

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LETTER OF TRANSMITTAL

To the Members of the Joint State Government Commission of the General Assembly of Pennsylvania:

Under authority of the Act of July 1, 1937, P. L. 2460 (Act creating Joint State Government Commission), as last amended by the Act of March 8, 1943, P. L. 13, we submit herewith a Report covering the Tax Structure and Tax Revenues of the General Fund of the Commonwealth of Pennsylvania, 1913-1943.

LLOYD H. WOOD, *Chairman,*
Committee on Continuation of the Tax Study.

June 23, 1944.

FOREWORD

This is the eighth of a series of studies of the costs of government in Pennsylvania and its political subdivisions, under preparation by the Joint State Government Commission. These surveys are submitted in the form of reports by the Commission's Committee on Continuation of the Tax Study, which was organized for the purpose of developing recommendations to the 1945 session of the General Assembly for revision of the tax structure of the Commonwealth.

The reports issued to date are:

No. 1—The Debt of the Commonwealth of Pennsylvania and its Local Subdivisions.

No. 2—Fiscal Operations and Debt of the School District of Philadelphia 1920-1943.

No. 3—Fiscal Operations and Debt of the School District of Pittsburgh 1919-1943.

No. 4—Fiscal Operations and Debt of the School District of Scranton 1919-1943.

No. 5—Fiscal Operations and Debt of Eleven Selected School Districts 1920-1943.

No. 6—An Analysis of the Fiscal Operations of the School Districts of the Commonwealth of Pennsylvania 1920-1942.

No. 7—An Analysis of Expenditures for Public Education in the Commonwealth of Pennsylvania 1920-1943.

This particular report (No. 8) deals with the Tax Structure and Revenues of the General Fund of the Commonwealth of Pennsylvania 1919-1943. It has been divided into three sections:

Section I deals with the development of the basic tax laws and of the tax structure of the General Fund of the Commonwealth from 1913 to 1943.

Section II analyzes the reaction of the various taxes levied for General Fund purposes, to economic conditions and the changing relationship of the major taxes to the total tax yield of the General Fund.

Section III reviews the revenues of the General Fund from taxes and all other sources during the period 1923 to 1943 and the extraordinary changes effected in the latter part of this period of economic expansion and decline.

Future reports will deal with a Fiscal Analysis of the Operating Funds of the Commonwealth and the Costs of Government of the Commonwealth and its Local Subdivisions.

Pennsylvania was one of the leaders in the national transition from an agricultural economy to an industrial one through the development of transportation facilities, natural resources, harnessing of power resources, manufacturing, and mass production in industry. This was accomplished by concentration of capital and accumulation of savings. Consequently, the Commonwealth at an early date developed a complex system of industrial and business taxation, adjusted to the state's economy, which was comparatively unresponsive to fluctuations in the national income and remained without fundamental change until 1935.

The General Fund basic tax structure of 1913 was still directly related to that established by the Revenue Act of 1889 (as amended) and other tax laws of that time. This absence of substantial changes between 1889 and 1913 indicates that the tax structure of the Commonwealth had already taken a definitive form, suited to the industrial expansion of the State. The factors which contributed to this result were the tax uniformity clause of the Constitution of 1873, the division of tax sources between the State and its political subdivisions, and the rapid growth of taxable resources, while revenue needs were relatively small.

In considering the relationship of General Fund taxes, the years from 1913 to 1943 have been divided, for analytical purposes, into economic periods. The major effects on taxation of the violent economic changes during these years were the result, primarily, of a great expansion in business after World War I, followed by the postwar depression, which occasioned a great shrinkage in business and a vast increase in expenses of all governments. In the period under analysis an abrupt change was made by the General Assembly of the Commonwealth from a tax structure, which was influenced only indirectly and to a minor degree by economic factors, to one in which two-thirds of the total receipts of the General Fund are derived from taxes, which are directly and substantially effected by fluctuations in economic conditions. The greatly increased need for revenue, rather than an extraordinary adverse effect of the depression on tax yields, was the principal cause of the emergency tax legislation of 1935 and 1936. The basic soundness of the normal tax structure of the General Fund and its ability to supply revenue at the level of governmental costs, existing before 1933, were demonstrated fully in the depression years prior to 1935. Since 1941 there has been a period of sharp recovery and expansion, due to the World War II, which has stimulated the dual tax structures to unprecedented yields in revenues for the General Fund.

The two decades, 1923 to 1943, were selected for the analysis of General Fund revenues in Section III of this report, because they provide strong contrasts in the expansion and recession in the entire state economy and in the consequent reaction upon the revenue structure of the General Fund. The first decade establishes a pattern of postwar expansion, while the second decade represents ten years of the greatest postwar depression in history. It is hoped that from this analysis will develop certain major conclusions which will be helpful in the years of reconversion and reconstruction, following the current world war. Furthermore, during the last decade the influence of the tremendous expansion of federal grants to the Commonwealth and to its political subdivisions, as well as federal subsidies to individuals has introduced a new factor, without precedent, in the activities, revenues, and expenditures of the State and its local subdivisions.

The General Assembly in 1945 will meet, at a time, when the financial circumstances of the Commonwealth will be exceptionally favorable for a constructive revision of the entire tax structure of the Commonwealth. The fact that the General Assembly in 1943, while repealing the mercantile license taxes, retained the emergency taxes on corporate net income, cigarettes, liquor, and gasoline reflected the first direct legislative acknowledgment that the demands upon the General Fund's revenue structure are now greater than the productive capacity of the normal tax structure and that serious consideration and substantial revision might be both desirable and necessary. The Commonwealth, itself, will in effect be free of debt, but will be faced with the most serious problems in its history. Chief among them will be relationship of the Commonwealth and its citizens to the national debt of more than $300,000,000,000. This debt will tax all the ingenuities of the United States, the states, their political subdivisions, and all their citizens to prevent repudiation of this debt, unprecedented in all history, either directly or through disastrous inflation. Either cause will utterly destroy our constitutional government of free men and women. The year 1945 will be a most auspicious time for a reorganization of the tax structure of the Commonwealth. It is of the most vital importance that this opportunity be seized to develop a sound, comprehensive system of equitable taxation for the Commonwealth and its political subdivisions, which will be adequate to meet the tremendous problems and responsibilities of the postwar years.

The Joint State Government Commission, therefore, is concerned with the needs, the revenue structure, the resources, and the over-all costs of government of all the political subdivisions of the Commonwealth, as well as with those of the Commonwealth itself. It is hoped that these various studies, made in the preparation of its recommendations for revision of the tax structure, will also contribute substantially to the permanent records of the Commonwealth. The surveys of this Commission, however, should be distinguished from those of other official agencies, which are studying the methods of allocation of revenues of the State to its political subdivisions and the practices of the local subdivisions in making their expenditures.

The Commission and its Committee on Continuation of the Tax

Study again express to the Pennsylvania Economy League their great appreciation of the assistance of the technical staff of its various offices throughout the State in the development of this report.

IRA T. FISS, *Chairman,*
Joint State Government Commission;

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TAX STRUCTURE
AND
REVENUES
PENNSYLVANIA GENERAL FUND

Part I: THE TAX STRUCTURE OF THE GENERAL FUND—1913-1943

GENERAL FUND TAX STRUCTURE—1913-1914

Leading Revenue Taxes in 1913-1914

The general fund's leading revenue taxes in 1913-1914 were those on capital stock of corporations, mercantile licenses, collateral inheritances, shares of banks and of title insurance, and trust companies, gross premiums of insurance companies, and gross receipts of public utilities. Minor revenue sources included the "corporation bonus" and taxes on the income of incorporated savings institutions, the stock of building and loan associations, the gross receipts of private bankers and notaries public, and on legal documents. Revenue was also received from a state personal property tax, abandoned in 1913, and from a tax on anthracite enacted in 1913, but soon declared unconstitutional.

The general fund tax structure of the Commonwealth in 1913-1914 was in great part based on the Revenue Act of 1889, as amended from time to time. This Act was itself a composite of nearly all of many tax measures which had survived the previous 50-year period of constant change in the incidence of taxation. The influence of particular groups active in that era had resulted in manifold taxes on *special* subjects and in various exemptions restricting the application of *general* taxes. Although consolidated into a single revenue measure in 1889, the component taxes did not even then form a well integrated system of taxation.

The four chief factors which made possible a stabilization of the tax structure at the end of the 19th Century included the tax uniformity clause in Article IX, Section 1 of the Constitution of 1873, the traditional division of tax sources between the State and its political subdivisions of government, the rapid growth of taxable resources at a time when revenue needs were relatively small, and the preferences given to certain groups by special tax legislation for reasons which were convincing when presented to the General Assembly.

The tax uniformity clause of the Constitution of 1873 read in part that "all taxes shall be uniform, upon the same class of subject, within the territorial limits of the authority levying the tax, and collected under general laws. . . ." The effect of this uniformity provision in preventing excessive and discriminatory tax legislation is indicated by Justice Paxson's review in 1886 of the reasons for the enactment of Article IX: [1]

> "It (Article IX) . . . was intended to, and does, sweep away forever the power of the Legislature to impose unequal burdens upon the people under the form of taxation. The evils which led up to its incorporation into the organic law are well known. The burden of maintaining the state has been, in repeated instances, lifted from the shoulders of favored classes and thrown upon the remainder of the community. This was done by means of favoritism and class legislation. Article IX of the Constitution was intended to cut up this system by the roots. . . ."

Another factor was the traditional division of tax sources whereby *state* taxes were imposed upon business and industry and *local* taxes upon persons and property in general. The Commonwealth's only general tax on property was a personal property tax from 1831 to 1913. It was entirely a state tax until 1889 when an amendment provided for the return of one-third of the proceeds from the 3 mill tax to the counties. In 1891, the tax rate was increased to 4 mills and the share returned to the counties was increased to three-fourths of the tax. The State then received 1 mill of the 4 mill personal property tax until 1913 when the Act of June 17 (P. L.

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[1] Quoted by Tanner, Sheldon C., in a memorandum, "Constitutional Limitations of the Taxing Power in Pennsylvania," printed in *First Report of the Tax and Financial Problems, etc.,* of the Joint State Government Commission (1941).

507) levied the tax exclusively for county purposes. Interest received on the indebtedness of municipalities and corporation, however, was made subject only to a loans tax for state purposes. The early formulation of this policy in Pennsylvania prevented many changes in the tax structure such as occurred in other states, when they relinquished the field of general property taxation to local governments.

Another factor which worked against changes in the state tax structure was the rapid growth during the period of taxable resources resulting from the unusual expansion of business and industry following the Civil War, the development of mass production in industry, the rapid growth of new methods of financing corporate enterprises, etc., coincidental with a period when the state's revenue needs were relatively small. This economic expansion served to alleviate the burden upon taxpayers and so to defer changes in the tax structure.

Capital Stock Tax

The principal tax of the general fund in 1913-1914 was the capital stock tax on domestic and foreign corporations, joint stock associations, and limited partnerships. This tax upon the property of corporations was measured by the total value of all of the capital stock of such corporations. The "value" could not be less than (1) the value of the capital stock at the average selling price of the stock during the year, or (2) the measurement of net earnings. The tax rate was 5 mills on each dollar of the total value, except that distillers were taxed at the rate of 10 mills and fire and marine insurance companies at the rate of 3 mills. The basic law of the capital stock tax was the Act of June 1, 1889 (P. L. 420).

The introduction of this tax in 1840 marked the first time that corporations in general had been set apart as a separate class for tax purposes. In its earliest form it was a tax on the property represented by the paid-in capital stock in the hands of the shareholders. The tax at that time was measured by dividends and collected by the companies as agents of the Commonwealth. Foreign corporations were made subject to the tax in 1866. In 1874 the capital stock tax was converted into a direct tax on the property of the corporation, rather than a tax upon its shareholders.

The exemption of manufacturing companies was embodied in permanent form in the Act of 1889. This exemption from the capital stock tax was granted to all types of taxable companies, domestic and foreign, which were organized exclusively for manufacturing purposes and actually engaged in manufacturing in the State. This exemption was not granted to distillers nor to companies with the right of eminent domain. The exemption was written into the law on the ground that it would foster industry within the State and promote the general welfare.

Tax on Corporate and Municipal Loans

In 1913 the state tax on personal property was relinquished and counties were authorized to collect it, but property represented by obligations of corporations and municipalities, such as bonds, was continued as the subject of a state tax on the owners of all such obligations. Section 17 of the Act of June 17, 1913 (P. L. 507) established a tax rate of 4 mills on the nominal (face) value of all such obligations as scrip, bonds, or certificates of indebtedness. It was the intent of the Act to exempt the properties, so taxed, from the personal property tax of the counties. The law required each corporate or municipal treasurer to act as collecting agent of the State and to withhold the tax due on its obligations from the payments of interest due the owners of such obligations. The Act of June 17, 1913 (P. L. 507) became the basic law for corporate and municipal loan taxes.

Corporate loans were first singled out as a subject of taxation in 1864. The tax was not in effect from 1874 to 1879, but in the latter year was restored at a rate of 4 mills with the principal sum of the corporate debt as the measure of the tax in place of interest paid. The reenactment of the tax in 1885 set the rate at 3 mills and restricted the tax to obligations in the hands of Pennsylvania residents. From this date until 1913 the only major amendment of the law was the increase, in 1891, of the rate to 4 mills.

The tax on municipal loans was first imposed in 1844 as part of the personal property tax. The municipal loans tax was withheld from the payment of interest to the holder of any scrip, bond, or certificate of indebtedness issued by counties, incorporated cities, districts, and boroughs of the Commonwealth. The tax continued with only minor changes from this time until 1911, when the indebtedness of school districts was included in its scope. In 1913 for the first time loans of townships were declared subject to the tax.

Mercantile License Taxes

Mercantile license taxes in 1913-1914 consisted of a license tax at a flat rate and a mercantile tax based on gross receipts or total sales of all retailers, wholesalers, brokers, exchange dealers, and of practically all persons engaged in merchandising, including restaurants and places of amusements. The rates varied by classifications, with retailers paying a license tax of $2 and a mercantile tax of 1 mill on gross receipts. Wholesalers paid $3 and one-half of one mill respectively.

The mercantile license taxes dated from 1821, when a license was first required for each store of a dealer in foreign goods. In 1841 the tax had been extended to all persons engaged in selling merchandise of foreign or domestic origin, if sales exceeded $1,000 annually. New classifications and tax laws were added in later years and were finally systematized by the Act of May 2, 1889 (P. L. 184), which became the basic law.

In 1907 brokers of all kinds were exempted from the gross receipts tax and made subject to the mercantile license taxes. The mercantile license tax system met with little favor, because the tax base of gross sales was without relation to net earnings or income and the broad rate applied to a single classification was unrelated to the earnings of the varied activities so taxed. Further, the administration of the law was very unsatisfactory and collection costs were notoriously high.

Tax on Collateral Inheritances

In 1913-1914 this tax was levied at the rate of 5 percent of the value of property passing to other than lineal heirs of the descendant. The tax was defined in one instance as a tax upon the right to receive, but a more direct statement appears in an early Pennsylvania decision to the effect that the State is made one of the beneficiaries of the estate. The tax was imposed upon the transfer of real or personal property or of any interest therein or income therefrom, except real property and tangible personal property outside of the Commonwealth.

Pennsylvania was the first state to levy a collateral inheritance tax. The original rate of 2½ percent, enacted in 1826, continued until 1846, when it was increased to 5 percent. The Act of May 6, 1887 (P. L. 79) consolidated the laws to that date.

Tax on Bank Shares

In 1913-1914 the tax on shares of national and state banks and of savings institutions was a 4 mill property tax on the value of such shares in the hands of their owners. The actual value of each share was ascertained by dividing the total amount of the paid-in capital stock, the surplus, and the undivided profits by the number of shares. Banks were given an option to collect the tax from the individual shareholders or pay it from the general funds of the banks. Furthermore, the banks could elect to pay the tax at the rate of 10 mills on the par value of the stock in lieu of the 4 mill tax on actual value.

Banks were the first type of business to be singled out by the State as a subject of taxation. In 1814 a tax of 6 percent was levied on all dividends declared by state banks. At various times until 1866, when national banks were classified in the same manner as state banks, the tax on dividends was supplemented or replaced by the capital stock tax. By 1869 the tax had become a shares tax for both national and state banks. The Act of July 15, 1897 (P. L. 292), provided the basic law for taxation of bank shares. This Act levied a tax at the rate of 4 mills on the shares of "every bank or savings institution, having capital stock, incorporated by or under any law of this Commonwealth or under any law of the United States, and located within this Commonwealth." The inclusion in this Act of the optional 10 mill rate, noted above, met with strong opposition before its adoption.

Tax on Shares of Title Insurance and Trust Companies

In 1913-1914 shares of all title insurance and trust companies were taxed at a rate of 5 mills on the "actual" value of capital stock. The value of the shares was determined by dividing the number of shares of each company into so much of the total of the paid-in capital stock, the surplus, and the undivided profits as was not invested in stock of other corporations liable to the capital stock tax or a tax on shares. As in case of the bank shares tax, the tax was upon the value of the stock in the hands of the shareholder. The company acted as agent of the State for the collection of the tax, either directly from the individual shareholder or indirectly from the company.

The marked differences between the tax on bank shares and the tax on shares of trust companies were the optional tax rate, granted to the banks, and the method of determining the "actual" value of capital stock for tax purposes. Only the title insurance and trust companies were allowed to exclude from "actual" value amounts represented by stocks of other corporations liable to the capital stock tax or a tax on shares. Furthermore, the tax rate on shares of trust companies was 5 mills and that on bank shares, 4 mills. This differential has been attributed to the greater scope of financial activities enjoyed by trust companies. There is also a possibility that the rate of 5 mills was due to the fact that that had been the rate from the period, 1874 to 1907, when trust companies had been subject to the capital stock tax. The basic law for the taxation of shares of title insurance and trust companies was the Act of June 13, 1907 (P. L. 640).

Gross Receipts Taxes

In 1913-14 the business excise tax upon public utilities was at the rate of 8 mills upon certain gross receipts of the types of utility companies specified by the Act of June 1, 1889 (P. L. 420), as amended. The first gross receipts tax was levied in 1866 at the rate of 7½ mills on every domestic railroad, canal, and transportation company not liable to a tax on income. Although the tax was abandoned from 1873 to 1877, it was reenacted in the latter year and increased in rate to 8 mills. In 1879 pipe line and conduit companies were subjected to the tax. In 1889 telephone and electric light corporations were included by the Revenue Act of that year. The gross receipts tax on express business was enacted as a separate act in 1899. This was the last legislation concerning the tax on gross receipts until 1925.

Gross Premiums Tax

In 1913-1914 foreign insurance companies (companies incorporated in states other than Pennsylvania) were taxed at the rate of 2 percent of gross premiums received on business written within the Commonwealth. Domestic insurance companies were taxed at 8 mills of gross premiums, except for mutual companies, doing business without capital stock, and mutual beneficial associations. Taxable premiums were limited to those received from within the State. Both domestic and foreign companies were taxed under the Act of June 1, 1889 (P. L. 420).

The gross premiums tax was first levied on domestic insurance companies in 1877. From 1856 to 1877 these companies had been subject to general taxes upon capital stock and upon dividends. The Act of 1877 placed a tax at a rate of 8 mills on all premiums received from within and without the State. Mutual companies without capital stock and mutual beneficial associations were exempted from the tax. In 1881 taxable premiums were limited to those from within the State. Most of the provisions of the Acts of 1877 and 1881 were incorporated in the Act of 1889, which remained the basic law without amendment in 1913-1914.

A gross premiums tax on foreign insurance companies was enacted four years earlier than in the case of domestic companies. From 1856 to 1873 foreign insurance companies paid annual fees for the privilege of doing business in the State and local agents were required to pay to the State Treasurer 3 percent of all gross amounts received from premiums, annuities, and executions of trusts. In 1873 the Act creating the State Insurance Department required that foreign insurance companies pay to the Commonwealth 3 percent of all premium receipts from business in the State. In 1889 the taxation of foreign insurance companies at a rate of 2 percent was incorporated in the Revenue Act of that year.

Not all tax revenue received from foreign fire insurance companies in 1913-1914 was available to the general fund. By the Act of 1895, as amended in 1905, one-half of the revenue of the 2 percent tax was returned to the cities, boroughs, and first class townships in which these companies did their principal business. This was the only tax, after the repeal of the personal property tax in 1913, to be shared by the Commonwealth with its political subdivisions.

Lesser Revenue Taxes

In 1913-1914 the Commonwealth's lesser taxes, from a revenue viewpoint, were those on gross receipts of private bankers; on net earnings, chiefly of mutual savings companies; on stock of building and loan associations; on gross receipts of notaries public; and on legal documents.

The excise tax on gross receipts of private bankers was levied at the rate of 1 percent. This tax dated back to 1861, when the rate of 3 percent was imposed on net income of "every stock broker, bill broker, exchange broker, real estate broker, and private banker." This Act of May 16, 1861 (P. L. 708), as amended, remained the basic law for the taxation of private bankers. In 1907 brokers of all kinds were exempted from the gross receipts tax, but were made subject to the mercantile license tax. After that date only procedural changes were made in the basic law.

The gross receipts tax was one of four taxes placed on financial businesses in addition to the taxes on shares of banks, title insurance, and trust companies. Building and loan associations were subject to a stock tax and mutual or incorporated savings institutions without capital stock were taxed on net earnings. Finance and small loan companies were taxed in the same manner as other corporations under the capital stock tax.

In 1913-1914 a tax was imposed at a rate of 3 percent upon net earnings or income of all domestic and foreign corporations or limited partnerships, not subject to the capital stock tax, the gross premiums tax, or otherwise specifically exempted. These exemptions served to make savings fund societies without capital stock the only important subject of this tax.

The history of this tax upon franchise, measured by net earnings, is of interest, as one of the earliest attempts to base a tax on earnings or income rather than on property. It was first enacted in 1864 and covered a wide range of subjects including "private bankers or brokers, incorporated and unincorporated banking and savings institutions, deposit and trust companies, gas companies, express companies, domestic and foreign insurance companies, building and land companies, and various other types of corporations, except certain public utility companies and companies paying a tax on dividends. Persons and corporations liable to this tax were exempted from the 3 percent Gross Receipts Tax levied under the Act of May 16, 1861 (P. L. 708)." [1]

[1] L. P. Stradley and I. H. Krekstein, *Corporate Taxation and Procedure in Pennsylvania,* Vol. 2, page 234.

The Act of 1864 was greatly modified by exemptions in 1868 and succeeding years until 1889, when the present basic law was established in the Act of June 1, 1889 (P. L. 420).

In 1913-1914 the tax on stock of building and loan associations was based on the Act of June 22, 1897 (P. L. 178). This Act provided that the prepaid, fully paid, matured, or partly matured stock of such associations, upon which dividends or interest were paid, was subject to a tax by the State at a rate equal to taxes upon money at interest—*i.e.* 4 mills. The tax was in lieu of all other taxes upon building and loan associations.[1]

Taxes on legal documents date back to the Act of April 6, 1830 (P. L. 272). These taxes were on the issuance or execution of legal documents, such as writs and deeds, and on the recording of deeds. The rates varied from $3.50 on writs and appeals, issued by the prothonotary of the Supreme Court, to 25 cents each for transcripts of judgment by a justice of the peace or alderman. The county officers retained a commission of 3 percent of amounts collected. Prothonotaries and clerks of designated courts were also liable to a tax of 50 percent on all fees in excess of a total of $1,500 annually.

The gross receipts of notaries public were taxed under the Act of March 10, 1810 (P. L. 79), as amended by the Act of May 20, 1865 (P. L. 486). The first act taxed all fees in excess of $1,500 annually at the rate of 50 percent. The amendment substituted a 5 percent tax on the gross receipts on notaries in Philadelphia County and later in other counties.

SUMMARY

The general fund tax structure of 1913-1914 differed in only a few particulars from that of 1889. No new type of taxes was initiated nor old types of taxes relinquished in the period from 1889 to 1913. By far the most significant event was the abandonment by the State of its participation in the personal property tax. This action in 1913 removed the Commonwealth from the field of general property taxation, although it continued to tax corporate and municipal loans.

The form of taxation on title insurance and trust companies was changed by the Act of 1907 from a tax on their capital stock to a tax

[1] Installment shares which constituted the larger part of the outstanding stock were not subject to the tax.

on the shares as property of the shareholder. This Act made more uniform the taxation of financial institutions, although substantial differences still remained in the taxation of state and national banks and of title insurance and trust companies.

In 1907 taxation of brokers of all kinds had been changed. Until that year all brokers had been taxed on net earnings or net income in the same manner as private bankers. Henceforth, they were taxed on gross receipts under a provision of the mercantile license taxes.

The only important subject of taxation added between 1889 and 1913 was gross receipts of express companies. By the Act of 1899 they were taxed in the same manner as gross receipts of public utilities specified in the Revenue Act of 1889.

The only important new revenue measure for the Commonwealth during the period 1889 to 1913 was a tax enacted in 1913 upon anthracite. The last tax based upon the value of anthracite had expired in 1881. This tax had been upon companies possessing the right to own, purchase, or lease coal lands. The Act of 1913, however, was a tax directly upon the market value of anthracite prepared for market. The Act was immediately challenged in the courts and was declared unconstitutional in 1915.

The absence of changes up to 1913-1914 in the taxes levied by the Revenue Act of 1889 indicates that the tax structure of the Commonwealth had taken permanent form. The factors which contributed to this result were the tax uniformity clause of the Constitution of 1873, the division of tax sources between the State and its political subdivisions, the rapid growth of taxable resources while revenue needs were small, and the advantages secured to some groups by tax exemption.

The outstanding feature of the tax structure in 1913-1914 was the predominant importance of taxes based on property. The principal revenue tax of the Commonwealth was the capital stock tax on property of corporations. Two other important revenue taxes, namely, taxes on shares of banks and title insurance and trust companies and taxes on corporate and municipal loans, were taxes on property in hands of the owner. In case of the capital stock tax and taxes on shares, it is interesting to note that an effort was made to secure greater equity in taxation of such property by measuring its value by the actual or going value of the company rather than by the book value of the assets or the par value of the shares.

Another point of interest in the 1913-1914 tax structure was state-local tax sharing introduced in 1895. Although prior to 1913 the state personal property tax had been shared with the counties, the distribution of revenue from the foreign fire insurance tax was the first instance in which revenues from a tax source, reserved to the Commonwealth, were shared with local governments. Despite this early introduction of sharing taxes, the practice failed to develop more fully as in many other states.

Section II

CHANGES IN THE TAX STRUCTURE OF THE GENERAL FUND—1913-1935

This analysis has been confined to legislation appreciably affecting the general fund's revenues, representing major changes in tax policy of the Commonwealth or in administration of its taxes.

In the two decades, 1913-1933, only three major changes were made in the tax structure. These were the abandonment of the state personal property tax in 1913, the enactment of an effective tax on anthracite in 1921, and the further extension of inheritance and estate taxation, particularly by the Acts of 1917, 1919, and 1927. A liquid fuels tax was introduced in 1921, but this was a source of general fund revenue for only two biennia before its dedication to the Motor License Fund for highway purposes. The temporary emergency measures, enacted in the two decades, consisted of a tax on net income of corporations in 1923 and a state sales tax in 1932. Many other amendments to the tax laws of the Commonwealth were concerned chiefly with revision and refinement of existing laws and procedure. Only in the field of administration was there a thorough-going change. The Act of 1927 placed nearly all duties of administration and collection of the Commonwealth's taxes in the newly-created Department of Revenue. The tax structure of 1889 itself, however, remained without substantial change until 1933.

PRE-WORLD WAR I PERIOD—1913-1917

The only important tax legislation in 1913 consisted of the repeal of the state personal property tax and the enactment of a tax on anthracite. By the Act of June 1, 1915 (P. L. 721) the General Assembly reenacted the anthracite tax Act of June 27, 1913 (P. L. 639). There was no change in the provisions of the tax itself, although the revenue was dedicated to highway construction and maintenance and to the counties wherein anthracite was mined or washed. The earlier Act of 1913 was already under legal attack when the Act of 1915 was passed. Later in the case of Commonwealth v. Alden Coal Company (251 Pa. 134) the Supreme Court of the Commonwealth declared the Act of 1913 unconstitutional as discriminatory legislation. This decision also invalidated the Act of 1915.

A new and permanent tax on the sale or transfer of stock of corporations, co-partnerships, associations, and joint stock companies was imposed by the General Assembly by the Act of June 4, 1915 (P. L. 828). This tax on stock transfers was of minor revenue importance.

WORLD WAR PERIOD—1917-1923

The greatest change in the tax structure of the general fund from 1913 to 1933 resulted from further extension of the base of taxation on inheritances and estates. Indirect or collateral inheritances had been taxed since 1826 and a tax upon direct inheritances had been attempted as early as 1897. This later act had been declared unconstitutional because it exempted from taxation estates valued at less than $5,000.[1]

Inheritance Tax Acts of 1917-1919

In 1917 a tax on direct inheritances again was imposed by Act of July 11, 1917 (P. L. 832), at a rate of 2 percent upon the clear value of the estate passing to direct heirs. By the Act of June 7, 1917 (P. L. 447), $500 for widows and children was exempted from the direct inheritance tax and declared constitutional.[2]

The General Assembly in 1919 replaced the Commonwealth's taxes on direct and collateral inheritances with a consolidated tax, known as the Inheritance Transfer Tax. The Act of June 20, 1919 (P. L. 521) repealed all prior tax legislation concerning inheritances and imposed

[1] Cope's Estate, 191 Pa. 1 (1889).
[2] Hildebrand's Estate, 262 Pa. 112 (1918).

a transfer tax upon the clear value of property passing to direct and collateral heirs. The former tax rates of 2 and 5 percent respectively remained unchanged. The Act stated that the tax was imposed upon "the transfer of all property, real or personal, or any interest therein or income therefrom, in trust or otherwise, to persons or corporations." In the following biennium the rate of the inheritance transfer tax on property, passing to collaterals and bodies corporate or politic, was increased from 5 to 10 percent by the Act of May 4, 1921 (P. L. 341).

Unauthorized Contracts Tax Act of 1917

The only new tax enacted in the World War I period until 1921 was without revenue significance. The Act of July 6, 1917 (P. L. 723) imposed a tax on premiums and payments on contracts with insurers or reinsurers outside the State, which were not registered or entitled to do business in Pennsylvania. This Act was for the purpose of removing the competitive advantages of unauthorized companies not subject to state taxation and regulation. It was also intended to discourage the purchase of insurance from companies unregulated in the interest of the policyholders by the safeguards which the Commonwealth required of registered companies. The Act of 1917, as enacted, was deficient in many respects and generally ineffective.

Gasoline Tax Act of 1921

In 1921 two new and important taxes were enacted by the General Assembly. The Act of May 20, 1921 (P. L. 1021) imposed the first tax on the sale of gasoline in the Commonwealth. It provided that a tax of one cent per gallon on all sales for any purpose, except resale, was to be collected by the seller. The revenue from this tax was to be distributed in equal proportions between the counties (for highway purposes) and the Commonwealth's General Fund. Although the State's share of the receipts was not dedicated, it should be noted that a portion of the costs of state highway construction and maintenance was still paid from the General Fund in this biennium.

Anthracite Tax Act of 1921

The second tax imposed in 1921 was a new levy on anthracite. This Act repealed the anthracite tax of 1915, which was inoperative, and provided that every kind of anthracite prepared for market was subject to a tax of $1\frac{1}{2}$ percent of its market value. The Act of 1921 was also tested in the courts and most of the tax payments were withheld pending a decision. The validity of the Act was sustained by the United States Supreme Court in 1922 in the case of Heisler v. Thomas Colliery and Company (250 U. S. 245).

AMENDMENTS TO THE TAX LAWS—1917-1923

Tax on Loans[1]

The General Assembly in 1919 passed four acts affecting corporate and municipal taxes on loans. The principal one was the Act of July 15, 1919 (P. L. 955). This measure extended the taxable obligations of corporations and municipalities from "all scrip, bonds, and certificates of indebtedness" to "all scrip, bonds, certificates, and *evidences* of indebtedness." In addition to obligations issued by corporations or municipalities, "obligations assumed or on which interest shall be paid" were made taxable. Corporate and municipal loans were further established, as a distinct subject of taxation, by express exemption of these obligations, so specially taxed, from the personal property tax of the counties. The fourth Act of July 15, 1919 (P. L. 955), served to establish the actual date of payment of accrued interest as determining the status of the taxpayer (See Commonwealth v. Mercer Mining Company, 23 Dauphin 306, 49 C. C. 596).

Gross Premiums Tax on Foreign Fire Insurance Companies

In the same year, 1919, the Commonwealth completely relinquished the revenue from the tax on gross premiums of foreign fire insurance companies. The Act of July 15, 1919 (P. L. 964) provided that on and after July 1, 1919, the *entire* net amount of this tax was to be distributed to the cities, boroughs, and townships upon the basis of the return of taxes from foreign fire insurance companies doing business in such municipalities.

POST-WAR I RECONSTRUCTION PERIOD—1923-1931

The only regular tax for the general fund, enacted by the General Assembly between 1923 and 1931, was not of importance from the

[1] In addition to the following acts, an act requiring treasurers, non-resident in the Commonwealth, of foreign corporations to collect the state's corporate loans tax was declared unconstitutional in the decision in the case of Commonwealth v. American Ice Company (24 Dauphin 453, 1 D. & C. 122).

revenue viewpoint. This Act of May 13, 1927 (P. L. 998), taxing marine insurance underwriting profits, had an unusual feature, however, in that the amount of taxable profits was determined by the use of a three-year average. The tax at the rate of 5 percent was upon the three-year average of total underwriting profits, wherever earned, with Pennsylvania's share allocated by a legislative formula. This was the first and only use made by the Commonwealth of an averaged base as a measurement of taxable profits, earnings, or income.

1923 Emergency Tax on Corporate Net Income

This temporary tax, enacted in 1923, was an emergency profits tax upon the net income of every corporation, except building and loan associations and companies required to pay a gross premiums tax. The Act of June 28, 1923 (P. L. 876) levied a tax, in addition to other taxes imposed under existing laws, upon all capital stock corporations, joint stock associations, and limited partnerships. Taxable net income was defined as "net income, as returned to the Federal Government, together with all interest and dividends." Taxes paid to the federal government were not allowed as a deduction. The rate of the emergency tax was one-half of one percent of the net income of corporations for the two years, 1923 and 1924.

Liquid Fuels Tax Act of 1923

The gasoline tax of 1921 was superseded by a liquid fuels tax imposed by the Act of June 15, 1923 (P. L. 834). This Act placed a tax of one cent a gallon upon all liquid fuels sold, except for the purpose of resale, and an additional emergency tax of one cent a gallon for a two-year period beginning July 1, 1923. Proceeds from both taxes were to be paid into the general fund with 50 percent of the regular tax of one cent apportioned for highway purposes to the counties wherein the tax was collected. The monies paid into the general fund were also used, apparently, for highway operations, which were still partially financed from the general fund.[1] In 1925 the General Assembly by the Act of May 13, 1925 (P. L. 671), as amended by the Act of the following day (P. L. 695), dedicated the state revenues

[1] The Biennial Report of the Auditor-General for 1923-1925 shows the general fund's receipts from the gasoline tax as $11,729 thousands, while expenditures for the Department of Highways amounted to $11,701 thousands.

from these regular and emergency taxes on liquid fuels to the Motor License Fund.

Taxes Repealed

During the period, 1923-1931, two tax measures were repealed. The first was the 5 percent tax on gross receipts of notaries public, which was repealed by the Act of March 19, 1925 (P. L. 51). In 1929 a major revenue tax upon anthracite was relinquished by the Act of May 17, 1929 (P. L. 1806). This Act, amending the Anthracite Coal Tax Act of 1921, provided for a reduction of the rate from one and one-half percent to one-half of one percent for the fiscal year, beginning June 1, 1930, and for discontinuance of the tax after May 31, 1931.

AMENDMENTS TO THE TAX LAWS—1923-1931

Inheritance Taxes

In 1925 the transfer tax on inheritances was amended by the Act of May 15, 1925 (P. L. 806). In the preceding year a federal estate tax had been imposed which permitted a credit for payment of state inheritance and estate taxes in an amount not exceeding 25 percent of the federal tax. The Act of 1925 attempted to raise the Commonwealth's inheritance tax to at least the full amount of the credit available under the federal act.[1] The transfer of inheritances was made subject to an additional tax by the Act of May 7, 1927 (P. L. 859). This Act provided that in the event that the total tax paid to the Commonwealth was less than the 80 percent tax credit granted by the federal estate tax law of 1926 for such payments, an additional amount, equal to the difference between the amount of the federal credit and the total amount of inheritance transfer taxes, was accrued to the State. This measure was amended and the state levy expressly named as an estate tax by the Act of May 16, 1929 (P. L. 1782). In the same year the Act of May 16, 1929 (P. L. 1795) provided that transfers made within one year prior to death, without an adequate and valuable consideration thereof, were to be deemed to have been made in contemplation of death and subject to the transfer tax.

[1] If 25 percent of the amount of the federal tax was less than the total amount which would be received from the state's 2 percent tax on direct inheritances or the 10 percent tax on collateral inheritances, the inheritance transfer taxes were to prevail.

Shares Tax—Trust Companies

Tax legislation in 1923 included one important amendment governing taxation of shares of title insurance and trust companies. The Act of July 11, 1923 (P. L. 1071), amending the Act of 1907, granted to these companies the privilege, formerly restricted to shareholders, of determining the actual value of capital stock on a base which excluded as assets the value of stock owned in other corporations subject to the capital stock tax or a tax on shares. In effect, this Act permitted trust companies, to pay the tax on their shares and to exclude from the taxable value of their shares the amount of assets represented by stock which they owned in other corporations subject to the capital stock tax or a tax on shares. This amendment removed the distinction in the taxable value of shares existing when the tax was collected from the individual shareholder and when it was paid directly by the company. In 1927 the value of assets excluded from the determination of the taxable value of the companies' capital stock was further broadened by the Act of May 7, 1927 (P. L. 853). This Act permitted the exclusion of the value of stock of other corporations, both those exempted by law from the capital stock tax as well as those liable to the capital stock tax.

Shares Tax—Banks

The bank shares tax was amended in 1925, for the first time in thirty-two years. The Act of May 2, 1925 (P. L. 497) repealed an alternative tax rate of 10 mills on the *par value* of bank shares. The Pennsylvania Tax Commission, frequently referred to as the Edmonds Commission, had reported in 1925 that this option resulted in lower bank taxes than would result from the alternative rate of 4 mills upon the *actual value* of bank shares.

Gross Receipts Tax

From 1925 to 1930 there were several changes in the taxes on gross receipts of public utilities. In 1925 the gross receipts tax, as imposed by the Act of 1899, was reenacted by the Act of May 13, 1925 (P. L. 702). The gross receipts of municipally owned and operated public utilities were exempted from taxation by the new act. The tax was expressly imposed upon the gross receipts of water companies and hydro-electric companies by the Act of May 14, 1925 (P. L. 706) to overcome recent court decisions holding that such companies were not liable to the gross receipts tax, as imposed by the Act of 1889.

Prior to 1925 the gross receipts tax on transportation of freight, passengers, or oil was imposed only upon incorporated businesses. The Quaker City Cab Company, a foreign corporation, entered the courts with the contention that this constituted discriminatory taxation of foreign corporations, inasmuch as the gross receipts of unincorporated operators of taxicabs were not subject to the tax. The Act of May 14, 1925 (P. L. 706) was passed to forestall the possibility that the gross receipts taxes on the transportation of freight and oil might be challenged on the same grounds. This Act amended the Act of 1889 by adding a clause which specifically taxed the gross receipts from the transportation of freight and oil by all types of business but excepted individuals.

In 1927, in an apparent effort to further sever the issue of the Quaker City Cab case from the gross receipt taxes on other forms of transportation, receipts from operations of taxicabs were specifically exempted from the gross receipts tax by the Act of May 13, 1927 (P. L. 1002).[1]

In 1929 the original provisions of the Act of 1889 were amended to cover all those engaged in transportation of freight, passengers, and oil, regardless of the type of business organization, whether incorporated or not. This Act of April 25, 1929 (P. L. 662) also extended the gross receipts tax to agencies engaged in transportation of baggage. The classification of transportation facilities excluded from the tax buses and motor buses as well as taxicabs carrying passengers. The amendment generally tightened up the law dealing with the transportation utilities to prevent further litigation on the grounds of discrimination.

Gross Premiums Tax

The taxation of gross premiums of insurance companies was limited by the Act of May 6, 1925 (P. L. 526), which exempted domestic

[1] In 1928, however, the Supreme Court of the United States reversed the decision of the Commonwealth's Supreme Court. The United States Supreme Court declared that the tax on the gross receipts of taxicab companies violated the uniformity clause of the Commonwealth's Constitution by taxing incorporated companies, but not partnerships or individuals. (Commonwealth of Pennsylvania v. Quaker City Cab Co., 277 U. S. 389.)

mutual insurance companies with accumulated reserves. This Act also provided that premiums of domestic companies from business done in the State were taxable, whether collected in the Commonwealth or elsewhere. Domestic insurance companies were also granted the same deductions from taxable gross premiums as were permitted to foreign companies by earlier legislation. It is of interest to note that by the Act of April 25, 1929 (P. L. 709) the revenue from the 2 percent premiums tax on foreign fire insurance companies, (relinquished by the State for distribution to cities, boroughs, and first-class townships, as designated) was further ear-marked by statute for the exclusive use of the relief fund associations of fire departments in the municipalities to which the tax was returned.

Capital Stock Tax

In 1927 corporations were granted an exemption in determining the taxable value of their capital stock. The value of stock owned in other corporations, engaged in an auxiliary business, in an amount represented by the proportion of the value of tangible assets outside the State to the total assets of the issuing corporation, was exempted from the taxable value of the capital stock of the corporations owning such stock.

Corporations of the first class (*i.e.* corporations not organized for profit) and cooperative agricultural associations were exempted from the capital stock tax by the Act of May 4, 1927 (P. L. 742). Such organizations were also exempted from the corporate loans tax. In 1929 the manufacturers' exemption was extended to corporations engaged in the processing and curing of meats. Laundries had been exempted by Act of July 22, 1919 (P. L. 903).

Reorganization of Tax Administration—1921-1931

By far the most important development in tax affairs from 1921 to 1931 was the reorganization of the Commonwealth's system of tax administration. The Act of April 13, 1927 (P. L. 207) amended the Administrative Code of 1923 (P. L. 498) and created the Department of Revenue as the tax settling and general collecting agency of the Commonwealth. It was empowered to exercise functions formerly performed by the Auditor General, the State Treasurer, the Insurance

Commissioner, and other agencies concerned with the settlement and collection of taxes and collection of license fees and other monies due the Commonwealth. The Department of Revenue began operations on July 1, 1929 under the terms of said Act of 1927 and the Fiscal Code of April 9, 1929 (P. L. 343). The names of the bureaus of the Department were self-descriptive. These were the Executive Office, Bureau of Corporate Taxes, Bureau of County Collections, Bureau of Institutional Collections, Bureau of Motor Vehicles, Bureau of Liquid Fuels Tax, and Bureau of Highway Safety. The Bureau of Corporate Taxes was of particular importance in the administration of the major taxes of the general fund. This Bureau collected all corporate taxes, including the foreign bonus, the capital stock tax, the bank and trust company shares taxes, corporate loans taxes, gross receipts taxes, and insurance premiums taxes. The Bureau reviewed and settled all corporate taxes and, in cooperation with the Department of the Auditor General, heard petitions for the resettlement of corporate taxes. The Bureau of Investigation and Collection was charged with the collection of the delinquent accounts of all classes of taxes administered by the Department and made field investigations in any tax matters or business within the jurisdiction of the Department of Revenue. This Bureau also collected taxes on malt beverages and spirituous and vinous liquors and the state tax on cigarettes after their enactment in later years.

POST-WORLD WAR I DEPRESSION PERIOD—1931-1935

The tax measures enacted before the emergency measures of 1935 showed no definite reaction to the onset of the decade of economic depression from 1931 to 1941. The tightening up of various exemptions from taxation, granted before 1931, may have reflected, in some degree, an awareness of the problems facing the Commonwealth. The tax structure after the General Assembly of 1933, however, showed no change commensurate with the severity of the fiscal problems already facing the State. Of the new taxes introduced, one was a highway use tax to reach interstate carriers, another an emergency tax upon retail sales, while the others were levies upon malt, vinous, and spirituous beverages, a natural consequence of the repeal of the 18th amendment to the Constitution of the United States.

Highway Use Tax Act of 1931

In 1931 the Commonwealth imposed a tax upon gross receipts of companies engaged in the business of motor transportation on the state's public highways. Such intrastate carriers had been exempted from the gross receipts tax in 1929, while the gross receipts of companies engaged exclusively in interstate business had been declared by the United States Supreme Court as non-taxable in 1887.[1] That decision had followed the precedent of other federal courts in denying to the State the right to impose a business privilege or excise tax upon companies engaged exclusively in interstate or foreign commerce.

Under decisions of the federal courts, however, motor carriers in interstate commerce could be subjected to a tax for the privilege of using the state's highways. The Act of June 22, 1931 (P. L. 694) enacted such a highway use tax at the rate of 8 mills (the same rate as the gross receipts tax on other businesses) upon the gross receipts of companies operating wholly within the Commonwealth and, in the case of interstate carriers, upon the amount of gross receipts proportionate to the mileage of routes operated within the State to the total mileage of routes operated. Tax receipts from intrastate companies were made payable to the general fund, but those from interstate companies operating routes within and without the Commonwealth were dedicated to the Motor License Fund for highway purposes.

Emergency Sales Tax Act of 1932

In 1932 a Special Session of the General Assembly by the Act of August 19, 1932 (P. L. 92) imposed an emergency tax upon sales by vendors of tangible personal property for purposes other than resale. The tax, at the rate of 1 percent of the retail sales price, was limited to a six months' period, ending February 28, 1933. Vendors were permitted to add the amount of the tax to the retail price by itemizing the amount of the sales tax.

Liquors Tax Acts of 1933

At the regular Session of the General Assembly in 1933 the first of several taxes on malt beverages and liquor, incidental to the repeal

[1] Philadelphia and Southern Mail Steamship Company v. Commonwealth of Pennsylvania, 122 U. S. 326.

of the federal prohibition amendment, was imposed by the Act of May 5, 1933 (P. L. 284). This Act taxed beers and wines at a rate of one-half cent per pint. Manufacturers and distributors were made liable for payment of the tax, which was evidenced by affixing beverage tax stamps or crowns to the containers before the sale of the beverage to retail dealers or consumers.

In 1933 a Special Session of the General Assembly was convened to consider among other questions, the regulation and taxation of alcoholic beverages within the Commonwealth. During this session several laws were passed governing the taxation of malt beverages and vinous and spirituous liquors and the licensing of manufacturers, distributors, and sellers of such beverages.

A state liquor floor tax was enacted November 22, 1933 (P. L. 5) by a Special Session of the General Assembly. This Act imposed a tax of $2 a gallon upon vinous and spirituous liquors lodged or stored in the Commonwealth at any time between the effective date of the Act (November 22, 1933) and the date of ratification of the 21st amendment to the Constitution of the United States (December 5, 1933). This Act was tested in the courts and in the case of Commonwealth v. A. Overholt & Co. (331 Pa. 182) was declared unconstitutional as a violation of the uniformity clause. Other taxes, imposed by the Special Session upon distilled and rectified spirits and upon wines, were not important from a revenue viewpoint. Many provisions of the malt liquor tax of 1933 were amended by the Acts of the Special Session of 1933, but the rates remained unchanged and the amendments were without significance in respect to tax revenue.

AMENDMENTS TO THE TAX LAWS—1931-1935

Capital Stock Tax

Among the laws enacted by the General Assembly in 1931 was one amending the capital stock tax law to bring it into line with a long established administrative practice. Although the earlier law had read that the shares were to be taxed at the full value of the capital stock, the Commonwealth had no authority to include in a property tax the value of property located outside of the State. However, tax authorities in practice gave consideration to the value of property located outside of Pennsylvania in determining the taxable value of capital stock. The Act of June 22, 1931 (P. L. 685) established for the settlement of the capital stock tax a statutory formula which excluded from taxable value so much of the value of the capital stock as is represented by the proportion of assets exempted or relieved from taxation to the total assets of the company.[1] The Act of June 22, 1931 (P. L. 687) amended the Act of 1927 (providing for exemption from the taxable value of capital stock the value represented by stock of corporations engaged in an auxiliary business) to limit this exemption to cases in which the corporation claiming the exemption holds a majority of stock in subsidiary corporations. The requirement that the subsidiary corporation be engaged in an auxiliary business was not reenacted.

Gross Premiums Tax

The tax on gross premiums of certain domestic insurance (stock) companies was amended by the Act of June 26, 1931 (P. L. 1408), which relieved *all* domestic *life* insurance companies from the gross premiums tax. The mutual (domestic life insurance) companies had already been exempted from this tax since 1877. Another amendment in 1931 permitted domestic companies to deduct from taxable gross premiums certain items already authorized as deductions to foreign companies.

Shares Taxes—Bank—Title and Trust

In 1933 the bank shares tax was amended to remove the last of the options granted to banks as to the tax or the method of payment of the tax upon bank shares. The Act of May 31, 1933 (P. L. 1130) repealed the option of banks to pay the bank shares tax from their funds, thereby putting the payment of the tax upon the shareholder. An Act of this same date (P. L. 1132) also repealed this optional

[1] L. P. Stradley and I. H. Krekstein, *Corporate Taxation and Procedure in Pennsylvania, op. cit.,* Volume I, Page 81. "To give effect to both of these factors, (1) taxable property and (2) value of capital stock, the tax is settled and computed in the following manner:

$$\frac{\text{Value of taxable assets}}{\text{Value of total assets}} \times \text{Value of whole capital stock} = \text{Taxable value.}$$

". . . the effect of this calculation is to tax only the taxable property as distinguished from property which is exempted, but at proportionate capital stock values rather than upon a specific asset basis."

This in effect excludes from the capital stock tax the value of property located outside the Commonwealth.

method of payment of the tax on shares by title insurance and trust companies. Thereafter, the payment of the tax on the shares of banks was limited to 4 mills and of title insurance and trust companies to 5 mills on the actual value of the shares in the hands of the shareholders. Other provisions of the Act of May 31, 1933 (P. L. 1132) extended for the first time provisions of the Act of 1907 (for determination of the "actual value" of the capital stock) to companies organized as "banks and trust companies" as well as to title insurance and trust companies. Furthermore, the method of determining the actual value of shares was changed to limit the exempted value of shares of corporations to the portion of value determined to be nontaxable under the apportionment formula of the capital stock tax enacted by the Act of June 22, 1931 (P. L. 685).[1]

SUMMARY 1913-1935

The importance of the many changes in the tax structure of the general fund from 1913 to 1935 was outweighed by the reorganization of the Commonwealth's system of tax administration and collection of taxes. The Act of 1927, establishing the Department of Revenue, and the amendment of the Fiscal Code brought about a revision and, in large part, a consolidation of the administration and collection of the Commonwealth's taxes. There was no concurrent reorganization of the tax structure. The principal changes in the tax structure were brought about by the following factors: (1) The revision and refinement of the tax laws to eliminate discriminatory tax treatment; (2) the increased revenue needs of the Commonwealth due to the depression; and (3) the effect of federal legislation in regard to the taxation of inheritances and estates.

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[1] The Act of May 31, 1933 (P. L. 1132) amended the provisions for determining the "actual value" of shares from "so much of the amount of capital stock paid in, the surplus, and undivided profits as is not invested in shares of stock of corporations liable to pay to the Commonwealth a capital stock tax or relieved from the payment of capital stock tax or tax on shares" to read "so much of the amount of capital stock paid in, the surplus, and undivided profits as is not invested in shares of stock of corporations liable to pay to the Commonwealth a tax on shares; or as is not invested in such portion of the capital stock of corporations liable to pay to the Commonwealth a capital stock tax as the capital stock tax of such corporation employed within this Commonwealth and liable to a capital stock tax bears to the total capital stock of such corporations; or as is not invested in such portion of the capital stock of corporations specifically relieved under the laws of this Commonwealth from the payment of a capital stock tax as the capital stock of such corporation employed within this Commonwealth and relieved from the payment of a capital stock tax bears to the total capital stock of such corporations."

During the periods of World War I (1917-1923) and the Post-War Reconstruction period ending in 1931, there were many amendments of existing laws, but few structural changes, except the enlarged scope of the inheritance and estate taxes. The introduction in 1921 of a sales tax on gasoline or liquid fuels reflected a nation-wide preoccupation with construction of highways in response to the accelerated development of motor vehicles for private and commercial purposes. This tax, although deposited at first in the general fund, was used for highway construction, maintenance, and financing before its dedication to the Motor License Fund in 1925.

Although the Commonwealth found it necessary to impose an emergency tax in 1923 for a period of two years upon the net income of corporations, the period from 1923 to 1931 was marked by few changes within the existing taxes on business and industry and by restriction of new taxes or new forms of taxes to those upon inheritances and estates. The major new exemptions from taxation were those extended to all domestic insurance companies except fire and casualty companies. The effect of federal taxation of estates was reflected by the adoption of state laws designed to impose taxes at a fixed proportion of the federal rate or to absorb the difference between the maximum amount allowed as a federal credit for state inheritance taxes and the actual amount returned by existing state taxes.

On the whole, from 1923 to 1931 there was a liberalization of the exemptions granted manufacturing corporations and trust companies. The only measure which ran counter to this trend was the repeal of the optional method of tax payment at a rate of 10 mills on the par value of capital stock, permitted to state and national banks. The result of this action was offset, in large part, by the extension to "bank and trust companies" in 1929 of the formula for the determination of the taxable value of capital stock, formerly restricted to title insurance and trust companies. This formula excluded from the taxable value of capital stock the value of capital stock owned in corporations liable to the capital stock tax or a tax on shares.

The greatest number of amendments and those effecting the greatest changes in the taxation of a particular type of business were enacted in respect to the gross receipts taxes on public utilities. These measures were necessitated, however, by adverse court decisions which threatened to invalidate the Act of 1889 forming the basic law of utility taxation.

From 1931 to 1935 no material change was made in the revenue laws commensurate with the gravity of the fiscal problems facing the Commonwealth. The emergency sales tax, enacted in the Special Session of 1932, was a stop gap measure of six months' duration and was not followed by further legislation in 1933. The repeal of the 18th amendment of the federal Constitution enabled the Commonwealth to obtain very substantial revenues from taxation of beverages and liquors and from the licenses and fees incidental to their manufacture, sale, and regulation. The imposition of these taxes, however, was not sufficient to forestall the financial crisis which faced the General Assembly of 1935.

Section III

EMERGENCY TAXATION—1935-1943

The tax structure of the general fund before the 1935 session of the General Assembly differed from that of twenty years earlier in only two important respects. The first was the imposition of taxes on malt beverages and liquors, which followed the repeal of the 18th amendment in 1933. The second was the absence of a tax upon anthracite. The most important revenue tax in 1934 was that on capital stock, but it was now followed in rank by the inheritance transfer and estate taxes. Other taxes remained substantially unchanged, but there had been a shifting in their relative importance, when ranked according to revenue produced. The revenue measures in order of importance in producing revenue for the period, 1933-1935, were those on capital stock, inheritance transfers and estates, corporate and municipal loans, alcoholic beverages, gross premiums of insurance companies, gross receipts of public utilities, mercantile licenses, and shares of banks and trust companies.[1]

The effect of unemployment relief and of increasing costs of government in the depression years upon the general fund tax structure were not materially felt until 1935. In the sessions of 1935 and 1936

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[1] A comparative ranking for the fiscal year 1913-1914 appears in the text on page 11.

the General Assembly found it necessary to raise revenues in amounts without precedent in the history of the Commonwealth. The urgency of the revenue needs and the opinion that such measures were truly of an "emergency" character worked against the integration of the new taxes into the regular tax structure. The succeeding biennia, however, found many of the emergency taxes reenacted because the regular tax structure no longer was capable of supporting the new levels of governmental expenditures.

Amendments to the Capital Stock Tax Act, 1935 and 1937

In 1935 the General Assembly made two changes of great importance in the normal tax structure. Both of these were embodied in the Act of May 16, 1935 (P. L. 184), which amended Section 21 of the Act of June 1, 1889 (P. L. 420), imposing a capital stock tax on foreign and domestic corporations. By the provisions of the Act of 1935, which were upheld in the case of Columbia Gas and Electric Corporation (336 Pa. 209), the subject of the tax was the value of the right of foreign corporations to do business within the Commonwealth.[1] The fact that the taxable value was measured by the actual value of the capital stock was held not to be a violation of the uniformity clause of the Constitution of the Commonwealth. This privilege tax on the franchises of foreign corporations was at the same 5 mill rate as the capital stock tax on domestic corporations. The change had long been advocated in the Commonwealth where it was widely held that foreign corporations were escaping an equitable share of the tax burden.

This Act suspended, for a period of two years, the exemption from taxation granted for capital investments in manufacturing, meat packing and laundering enterprises within the State. In the following biennium, the Act of April 8, 1937 (P. L. 239), provided for the permanent removal of the manufacturers' exemption.

Emergency Taxes Enacted—1935-1941

In 1935 the General Assembly enacted six emergency taxes, effective for limited periods only, to produce general fund revenues. Five of these (on amusement admissions, documents, cigarettes, personal

[1] The taxable value attributable to Pennsylvania is determined by applying allocation fractions to the valuation of the capital stock. The three allocation fractions for apportionment are gross receipts, tangible property and wages and salaries within and without the State.

property, and corporate net income) were imposed on new subjects. The sixth raised the liquid fuels tax by one cent per gallon for general fund purposes in addition to the previous three cent rate earmarked for other funds. The Special Session of 1936 enacted further emergency taxes on liquor sales by distillers to the Liquor Control Board and on the sales of all alcoholic beverages by the Board. Five of these eight taxes were extended for further periods, while three as stated hereafter were not reenacted.

Emergency Taxes in Effect for One Biennium or Less

In 1935 a temporary tax for a two year period was imposed upon amusement admissions by the Act of June 22, 1935 (P. L. 429). This Act imposed a tax at the rate of one cent for each twenty-five cents of the established price charged the public for "the privilege to attend or engage in any amusement."

In the same year, the Act of May 16, 1935 (P. L. 203) placed for two years a documentary stamp tax upon the execution of certain formal documents such as deeds, evidences of indebtedness, promissory notes, and mortgages. The tax was at the rate of five cents for each $100 of value represented by the document. Payment of the tax was evidenced by affixing documentary stamps purchased from the Department of Revenue.

In 1936 the Special Session enacted an emergency excise tax upon delivery by distillers of all liquor to the Liquor Control Board for sale within the State. The Act of August 6, 1936 (P. L. 92) imposed the tax at the rate of 4 percent of the purchase price to the Board. The tax was in effect for a period of nine and one-half months, ending May 31, 1937.

None of the above taxes on amusement admissions, documents, or distillers' sales was extended beyond the original period of its enactment.

Emergency Taxes Reenacted for More Than One Biennium

In 1935 the Commonwealth imposed the first tax on corporate net income since the two year emergency tax of 1923. The General Assembly also enacted an emergency tax on personal property similar to that abandoned in 1913. Liquid fuels which were taxed already at a rate of 3 cents per gallon for state and local highway purposes were made subject to an additional one cent per gallon tax, earmarked for the general fund. The emergency taxes on the sales of cigarettes and liquor broadened the scope of selected sales taxes first introduced by the malt beverage tax of 1933.

Corporate Net Income Tax

In 1935 the Act of May 16, 1935 (P. L. 208) imposed an excise tax at the rate of 6 percent upon the net income of domestic and foreign corporations, joint stock associations, and limited partnerships doing business within the Commonwealth. Banks, title insurance and trust companies paying the taxes on their shares and insurance companies (other than domestic stock fire, and casualty companies) were exempted from the corporate net income tax. Net income was defined as the amount reported for federal income tax purposes, but deductions were allowed for taxes paid to the federal government. A statutory formula was provided for apportionment of the net income of corporations doing business within and without the State. Corporations and their controlled subsidiaries were permitted to file consolidated reports. The tax was upheld by the Supreme Court of the Commonwealth in the case of Turco Paint and Varnish Company v. Kalodner (320 Pa. 421).[1]

The Special Session of 1936 increased the rate of the corporate net income tax by the Act of August 7, 1936 (P. L. 127). This amendment changed the rate of taxation on 1936 corporate net incomes from 6 percent, as imposed by the Act of 1935, to 10 percent. A further deduction from net income was permitted of all dividends received from other corporations. In 1937 the Act of April 8, 1937 (P. L. 227) reenacted and amended the corporate net income tax. The rate was reduced from 10 percent to 7 percent for the years 1937 and 1938. The permissive filing of consolidated reports was restricted to those corporations making consolidated returns to the federal government.

The Act of May 5, 1939 (P. L. 64) continued the corporate net income tax for another two years at the rate of 7 percent, but extended

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[1] An individual net income tax, Act of July 12, 1935 (P. L. 970) was invalidated in the case of Kelley v. Kolodnar (320 Pa. 180). The court held that the tax was a property tax and that the graduated rate violated the uniformity clause of the Commonwealth's Constitution.

the tax to all corporations having capital or property employed in the Commonwealth in addition to corporations doing business in the State.[1] The Act of 1939 granted authority to the Department of Revenue to adjust the amount of tax, when changes in the net income, as determined by the federal government for tax purposes, resulted in a reduction of the taxpayer's liability to the State. Prior to this it had been generally necessary to file a petition for refund with the Board of Finance and Revenue. In 1941 the corporate net income tax was again extended at the rate of 7 percent for the years 1941 and 1942.

Cigarette Tax

The Act of June 14, 1935 (P. L. 341) imposed a state excise tax for a period of two years upon the sale of cigarettes to dealers. The tax was at the rate of one cent per ten cigarettes, regardless of kind or value, and was made effective through revenue stamps affixed to each package. Dealers were made liable for payment of the tax, but were exempted from a mercantile license tax, formerly imposed on the business of selling cigarettes. The constitutionality of the tax was upheld in the case of Stefano Brothers v. Hamilton (Court of Common Pleas, Dauphin County, April 8, 1940).[2] The cigarette tax was reenacted for periods of two years at the same rate at succeeding sessions of the General Assembly and is still in effect.

Personal Property Tax

In 1935 a tax was levied on personal property by the Commonwealth for the first time since 1913. The Act of June 22, 1935 (P. L. 414) imposed a tax at the rate of 1 mill. This was a new tax, unrelated to either the 4 mill personal property tax for county purposes or the 4 mill tax on corporate and municipal loans, both of which were imposed by the Act of 1913. The Special Session of 1936, in a search for further unemployment relief funds, amended the tax by the Act of July 17, 1936 (P. L. 51) and increased the tax rate for 1936 from 1 mill to 4 mills. The personal property tax was reenacted at the

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[1] This provision was a legislative reversal of a decision by the Dauphin County Court in the case of Commonwealth v. Delaware River Railroad and Bridge Company, 46 Dauphin 18, 37 D. & C. 449.

[2] The court ruled that the tax was not a property tax, but an excise tax measured on a uniform base and so did not violate the uniformity clause of the Constitution of the Commonwealth.

4 mill rate for two year periods by the General Assembly in 1937, 1939, and 1941.

Liquid Fuels Tax

The Liquid Fuels Act of 1931 was amended by the Act of June 21, 1935 (P. L. 412), by increasing the tax from 3 cents to 4 cents per gallon. The revenue from this measure was divided between the state's Motor License Fund and the counties in the proportion of 2½ cents and ½ cent per gallon respectively, and 1 cent payable to the General Fund. For two years only the proceeds of the 1 cent tax payable to the General Fund was earmarked for relief.

Liquor Sales Tax

In 1936 the Special Session by the Act of June 9, 1936 (P. L. 13) imposed a sales tax on all liquor sold by the Pennsylvania Liquor Control Board. The tax was at the rate of 10 percent of the net selling price and was collected by the Board for payment into the general fund. The original measure was operative only until June 1, 1937 but in the succeeding biennia the tax was extended for two year periods.

EMERGENCY RATE INCREASES OF REGULAR TAXES—1935-1941

In addition to the emergency taxes, the General Assembly in 1935 and 1936 enacted emergency increases in the rates of several of the regular taxes (those on corporate loans, gross receipts of public utilities, and shares of banks and trust companies).

Gross Receipts Tax

The Act of May 16, 1935 (P. L. 200) amended the Act of 1889 by increasing to 14 mills the previous rate of 8 mills on gross receipts of all public utilities except motor carriers. The amendment specified that the new rate was effective for the years 1935 and 1936 and that, thereafter, the tax was to be at the rate of 8 mills. The Special Session of 1936, however, by the Act of August 6, 1936 (P. L. 87) increased the rate from 14 to 20 mills, the equivalent of a normal rate of 8 mills and an emergency rate of 12 mills. The Act of 1936 further provided for taxable periods of six months so that the two periods in 1935 and the first period in 1936 were taxed at the rate of 14 mills and the second period in 1936 at the rate of 20 mills. The Act also provided for a return to the normal 8 mill rate beginning with the first period in 1937. Subsequent amendments continued the 20 mill rate for that period.

Corporate Loans

The Act of June 22, 1935 (P. L. 414), which enacted the state personal property tax, also provided for an additional tax at the rate of 1 mill upon corporate loans for 1935 and thereafter, but did not increase the rate on municipal loans. The normal tax of 4 mills on corporate loans, imposed by the Act of 1913, was still effective. The Act further provided that all monies paid into the State Treasury from the state tax on personal property and the additional tax on corporate loans were to be earmarked in the first year for unemployment relief purposes.

The Act of July 17, 1936 (P. L. 51) increased the rate of the emergency tax for 1936 from 1 mill to 4 mills, thereby increasing the total rate from 5 mills to 8 mills. In 1937 the normal four-mill tax, provided for in the Act of 1913, was repealed and a tax at the rate of 8 mills was imposed under the provisions of the Act of 1935, as amended by the Act of May 18, 1937 (P. L. 633). This rate of 8 mills was reenacted in 1939 and 1941.[1]

Shares Tax

The Special Session of 1936 by the Act of July 28, 1936 (P. L. 76) amended the normal tax on bank shares and imposed for the calendar year of 1936 a rate of 8 mills in place of the previous 4 mill rate. The Act of July 28, 1936 (P. L. 73) also raised the tax rate on the shares of trust companies from 5 mills to 8 mills for that year. This was the first time that the taxes on the shares of banks and trust companies were at the same rate. Both of the acts provided, however, for a return to the previous normal rates at the beginning of 1937. The General Assembly, however, in the next three biennia reenacted the increased rates of 8 mills on shares of both banks and trust companies.

The Act of July 28, 1936 (P. L. 73) contained an important amendment whereby trust companies, owning stock of other companies liable to taxation on their shares or liable to, or relieved from, the cap-

[1] This Act of 1937 also placed the taxation of municipal loans under the provisions of the Act of June 22, 1935 (P. L. 414), as amended.

ital stock tax, were no longer permitted to exclude the value of such stock in determining the taxable value of their own shares. The Act provided an exemption from the shares tax for companies whose shares were held in toto by another corporation liable to the tax on shares.

Other Tax Legislation—1935-1941

In 1935 the General Assembly enacted a (normal) graduated tax on individual incomes to raise revenue for support of education. As noted in the footnote on page 34, the act was invalidated by the courts as a violation of the uniformity clause. In 1937 the General Assembly attempted to impose a graduated license tax upon chain stores and theatres by the Act of June 5, 1937 (P. L. 1656). The yield from this tax (estimated at $4 million in the 1935-37 Budget) was dedicated by a companion act to increase the minimum annual salaries of public school teachers in fourth class school districts. This tax was invalidated in 1939 as a violation of the uniformity clause of the State Constitution by the decision in the case of American Stores Company v. Boardman (336 Pa. 36). No other new tax of consequence was introduced between 1937 and 1941.

By far the most important legislation in this period, relating to the tax structure of the general fund, was contained in the Act of February 2, 1937 (P. L. 3), which established a self-assessment feature for corporate taxation. Many important procedural changes were also effected by this Act, which amended the Fiscal Code of 1929. A self-assessment feature, similar to the federal net income tax procedure, was applied to taxes on corporate net income, capital stock, foreign franchises, corporate and municipal loans, gross receipts, and several lesser taxes. By this provision companies compute and prepay their tax liability, subject to final determination by the Bureau of Corporate Taxes. This measure advanced the date of receipt by the Commonwealth of certain tax payments, especially those from the capital stock, foreign franchise and loans taxes. Consequently, the collection of these taxes in 1935-1937 represented almost three years' receipts rather than a normal collection of two years' taxes within one biennium. The administration and collection of the taxes on alcoholic beverages, cigarettes, and liquor sales were placed in the Bureau of Investigation and Collection by this Act.

In 1937 the General Assembly repealed the tax on stock of building and loan associations and exempted from taxation non-profit corporations and rural electric cooperative associations. Both measures appeared to have been prompted by federal legislation encouraging the development of such associations.

In 1941 provision was made by the General Assembly to refund monies paid under the liquor floor tax of 1933 and the chain store and theatre tax of 1937, both of which had been invalidated by the courts.

SUMMARY

At the close of the Post-War I Depression period, 1931-1941, the Commonwealth had two systems of taxes, existing side by side. The first of these was the regular or normal tax structure, which had been expanded during the depression by extension of the capital stock tax to all invested capital, employed in manufacturing within the State, and by adoption of a franchise tax which imposed heavier taxes upon foreign corporations.

The second system was comprised of emergency taxes and of increased emergency rates for certain taxes of the normal structure. The new emergency taxes were comprised chiefly of those of the selected sales type (such as the taxes on cigarettes and liquor) and of an excise tax based on the net income of corporations. The selected sales taxes had been widely adopted by other states in the early years of the depression and in many states a general sales tax, along the line of the Commonwealth's temporary emergency sales tax of 1933, had become established as major revenue producers. The taxes upon the net income of corporations and individuals were also prevalent in other states and pre-dated, in some instances, the adoption of the federal income tax in 1913. The adoption of state taxes on income was most marked after the close of World War I and again at the onset of the depression. The Commonwealth of Pennsylvania had enacted a corporate net income tax for the years of 1923 and 1924, as an emergency measure, although the capital stock tax continued as the primary tax on corporations.

Two other modern types of taxation on graduated bases had been introduced by the General Assembly during the depression period. The individual net income tax of 1935 and the chain store and theatre tax of 1937 were enacted as permanent measures, but both were invalidated by the courts as violations of the uniformity clause of the Commonwealth's Constitution. In the absence of a Constitutional amendment, these decisions closed the door upon the many variations of taxes of these types employed in other states.

TAX LEGISLATION BY THE GENERAL ASSEMBLY IN 1943

At the convening of the General Assembly in 1943 the Commonwealth possessed two tax structures producing about equal amounts of revenue. The normal structure, with the exception of inheritance and estate taxes, represented taxes which had been imposed as the demands for revenue increased and sources became available. The emergency taxes represented an expansion of this idea into new fields, because of the extraordinary demands on the Commonwealth's Treasury.

In more recent years innovations were introduced so that measurements of business taxes by formulae were retaxed more closely to the going value and ability of the companies to pay than was possible by the use of a property base; distribution to individuals of a portion of the state tax burden; and simplification of the tax structure by elimination of overlapping or duplicating taxes. These objectives were not implicit in the emergency taxes enacted by the General Assembly in the depression period, which were primarily revenue measures temporarily added to, or superimposed upon, the normal structure. The introduction of these new taxes, following the temporary general sales tax (1932) and accompanied by the attempts to tax the net income of individuals (1935) and chain stores and theatres (1937), constituted the first effective stimulant to the further development of the general fund's tax structure, since its crystallization in the Revenue Act of 1889.

Emergency Taxes Continued

The General Assembly of 1943 enacted the first tax legislation of significance since 1937. The emergency tax on corporate net income was continued by the Act of May 7, 1943 (P. L. 217), but the rate for 1944 and 1945 was reduced from 7 percent to 4 percent of net income. This Act disallowed the deduction[1] of federal income and

[1] The Act of June 28, 1923 (P. L. 867) also prohibited such deductions—See page 26.

excise profits taxes (which had previously been possible) and abolished the filing of consolidated returns. These provisions, despite the reduction in the rate of the tax, are expected to maintain or increase the revenue from the corporate net income tax.

The emergency taxes on liquor sales and cigarettes were continued without changes in rate.[1] The additional one cent per gallon liquid fuels tax for the general fund was continued by the Act of May 26, 1943 (P. L. 616). A joint resolution (No. 2), adopted by the 1943 Session, however, proposed an amendment to the Constitution which would forbid the diversion of the proceeds from gasoline and related excise taxes, motor licenses, fees, etc., to uses other than those related to highways, bridges, and air navigation facilities. To become effective, the resolution must be approved by the General Assembly of 1945 and subsequently be ratified by the electorate.

Emergency Rates Continued

Of the emergency rates, the tax rate of 20 mills on gross receipts of public utilities was continued for 1943. The Act of May 21, 1943 (P. L. 334) further provided that the tax for 1944 was to be at the rate of 14 mills and, thereafter, at the rate of 8 mills. This Act exempted from the gross receipts tax all sales of electric energy for resale, when the receipts from resale were subject to the gross receipts tax.

Tax Acts Repealed

The 1943 General Assembly, upon the recommendation of Governor Edward Martin, repealed the mercantile license taxes and did not reenact the state personal property tax. The mercantile licenses taxes, which dated back to 1821, were among the oldest of the State's taxes. In 1889 these taxes were systematized with uniform rates on classifications of retailers, wholesalers, and dealers on exchanges. The provisions relating to mercantile license taxes in the Act of 1889 remained the basic law, until terminated on December 31, 1943 by the Act of May 7, 1943 (P. L. 237).

The state personal property tax, in effect since 1935, was not reenacted by the 1943 General Assembly. From 1913 to 1935 personal property (other than corporate and municipal loans) had been untaxed

[1] The Act of May 7, 1943 (P. L. 207) continued the liquor sales tax until June 1, 1945. The cigarette tax was extended by the Act of May 7, 1943 (P. L. 209) until May 31, 1945.

for state purposes. In the 1943 budget message, Governor Martin recommended the discontinuance of the tax because it . . . "has proven especially burdensome in that it was placed on top of a county tax of like millage and oftentimes assets are taxed when there are no earnings from the assets to pay the tax." The provisions of the Act of July 11, 1941 (P. L. 361) had already reduced the rate on corporate loans from 8 mills to 4 mills for the calendar year 1944 and thereafter.

Emergency Rates Lapsed

The 1943 Session did not amend the acts imposing emergency rates on shares of banks and trust companies. As a result, the tax rate on shares of banks and savings institutions reverted from 8 mills for 1941 and 1942 to 4 mills for 1943, as provided in the Act of July 11, 1941 (P. L. 380). In the same manner the tax rate on shares of title insurance and trust companies reverted from 8 mills for 1941 and 1942 to 5 mills thereafter, as provided by the Act of May 29, 1941 (P. L. 75).

Manufacturers' Exemption Reenacted

The most important of the other tax legislation, enacted by the 1943 General Assembly, was the Act of May 27, 1943 (P. L. 762). This Act amended the Act of June 1, 1889 (P. L. 420) and reestablished the manufacturers' exemption for domestic and foreign corporations, joint stock associations, limited partnerships and companies. As in the case of the earlier provisions for the manufacturers' exemption, distilling companies and those enjoying the right of eminent domain were not granted the exemption. The provisions of the Act of 1943 were practically identical with the exemption abolished in 1937, and provided that the capital investment of domestic companies, when actually invested or employed in manufacturing within the Commonwealth, was exempt from the capital stock tax. Foreign corporations under the franchise tax were also granted exemptions of the amount of invested capital employed within the State, as determined by the allocation of property, wages, or gross receipts utilized within and without the Commonwealth. The provisions of the Act of 1943 become effective January 1, 1945, if hostilities of the present war have ceased. Otherwise, it becomes effective on January 1, of the first year after cessation of hostilities.

Estate Tax Amended

The estate tax of 1927 was amended by the Act of June 4, 1943 (P. L. 864). This Act imposed a tax upon resident estates classified as subject to the federal estate tax. The Act provides a new method of computing the estate tax to insure, in the words of the statute, that "the Commonwealth may receive the *full* benefit . . . of the Federal Revenue Act of 1926 . . . which grants a credit on Federal estate taxes for estate succession and transfer inheritance taxes paid to the state governments." The full administration of inheritance and estate taxes was transferred to the Department of Revenue by the Act of May 21, 1943 (P. L. 380), amending the Fiscal Code. All the powers and duties, formerly exercised by the Auditor General in respect to administration of inheritance and estate taxes, were transferred to the Department of Revenue.

Premiums Tax on Foreign Casualty Insurance Companies Shared

The Act of May 12, 1943 (P. L. 259) required that one-half of the 2 percent tax upon premiums paid by foreign casualty insurance companies be paid to the treasurers of cities, townships, towns, and boroughs in proportion to the yields of these taxes from business done in these municipalities. The statute made mandatory the payment to the police benefits funds of the amounts received by the municipalities under the terms of this Act. The Act paralleled an earlier dedication of the gross premiums tax from foreign fire insurance companies to the relief fund associations of local fire departments. This was the third tax of the Commonwealth since 1889, of which all or part of the proceeds were shared with or returned to local governments.

SUMMARY (1941-1943)

The particular taxes, contributing the larger part of the revenue of the general fund, have changed greatly in the last decade. In 1941-1943 the largest revenue producer was the emergency tax on corporate net income. The other major revenue producers, in descending order, were: the tax on capital stock; the taxes on alcoholic beverages, including the emergency liquor sales tax; the one cent emergency tax on liquid fuels; the emergency tax on cigarettes; the normal taxes on inheritance transfers and estates; and the normal tax on foreign franchise. Only three of the major revenue taxes of 1933-1935, listed on page 29, were the major revenue producers in 1941-1943. These were the taxes on capital stock, inheritance transfer and estates, and malt beverages. In 1933-1935 they ranked first, second, and third respectively, but in 1941-1943 the order was second, sixth, and third (due to the addition of the liquor sales tax), respectively.

The legislation of 1943 effected several changes in the duel structures of regular and emergency taxation. A reduction in taxes had become possible, due to improved financial circumstances of the Commonwealth and to prospects of further recovery under the stimulus of the war production. For the first time, since the introduction of the emergency taxes, there was a favorable opportunity to survey the tax structure and to consider a redistribution of the tax burden, which had been greatly altered by the emergency measures of 1935-1937. The tax legislation of 1943 tended toward a return to the pre-depression structure. The emergency taxes on bank and trust company shares and corporate loans were discontinued. The emergency rate on gross receipts was reduced to the normal rate of 8 mills, effective in 1945. The manufacturers' exemption was ordered restored at the end of the present hostilities and the state personal property tax was abandoned.

These indications, however, were overshadowed by the importance of the General Assembly's action in repealing the mercantile license taxes at the same time that the emergency taxes on corporate net income, cigarettes, liquor and gasoline were retained. This was the first direct evidence that the nominal segregation of taxes, as normal or emergency, was giving way to a constructive over-all approach. The probability that some of the emergency taxes would be retained in preference to, or in addition to, the normal taxes was now made clear. The retention of the emergency taxes also gave recognition to the fact that the revenue needs of the Commonwealth are now greater than the present productive capacity of the normal tax structure. Generally, however, the legislation of the 1943 General Assembly did more to emphasize the problems of the Commonwealth's tax structure than it did to solve them.

The tax legislation of 1943 did not greatly effect the major revenue taxes. As a result, the major revenue producers in 1943-1945 are not likely to differ from those of 1941-1943. The General Assembly in 1945 will meet at a time when the financial condition of the Commonwealth will be exceptionally favorable for a constructive revision of the entire tax structure of the Commonwealth. There will be many demands for the repeal of particular taxes or substantial reduction in the prevailing rates. Despite the uncertainties of the postwar era, the time will be auspicious for the reorganization of the tax structure. It is important that this should not become a piece-meal operation, resulting in haphazard tax legislation. For the first time in more than 50 years the opportunity will be presented in 1945 to inaugurate a comprehensive revision of the tax structure of the Commonwealth and to establish a realistic pattern for postwar revenues and their allocation.

With that opportunity in mind, this survey of the present tax structure and its yields has been prepared to assist the General Assembly in its vital task of revision.

SUMMARY DATA ON GENERAL FUND TAXES IN THE 1943-1945 BIENNIUM

The data relating to rates and yields of general fund taxes in the current biennium are summarized in three schedules. In Table A, the tax receipts of the last complete biennium, 1941-1943, are presented as a guide to the relative revenue importance of the various taxes. The base and rate of each of the major taxes, now operative, are tabulated in Table B and supplemented in Table C by citation of the basic tax laws, as last amended.

The measure of tax productivity, as shown in Table A, must be tempered by consideration of the effect upon certain taxes of the unprecedented high levels of national income since 1940. These have resulted in extraordinary yields in 1941-1943, especially from the corporate net income tax and the selected sales taxes. Furthermore, no emergency rate on normal taxes will extend beyond the close of the calendar year 1944, according to present limitations. The emergency rate on shares of banks, title insurance, and trust companies expired at the end of 1942; that on corporate loans at the end of 1943; and the 20 mill rate of the gross receipts tax, in effect through 1943, has been reduced to 14 mills in 1944 and will be 8 mills thereafter. Finally, two of the taxes, those on personal property and mercantile licenses, expired at the end of 1943.

An interesting comparison can be drawn from Table B to highlight the tremendous change in the tax structure, effected by the tax legislation of 1935 and 1936. In 1913-1914 taxes on a property base dominated the general fund. In 1943-1945 taxes on this base ranked third to those on the new bases of net income and selected sales. The major taxes of the two periods, classified by tax base, are tabulated below:

	Major Taxes	
Tax Base	*1913-1914*	*1943-1945*
Property	Capital Stock	Capital Stock
	Shares	Shares
	Loans	Loans
Gross Volume of Business	Mercantile License	....
	Public Utilities	Public Utilities
	Insurance Companies	Insurance Companies
Transfers	Inheritance	Inheritance
Net Income	....	Corporate Net Income
Selected Sales	....	Cigarettes
	....	Liquid Fuels
	....	Liquor Sales
	....	Alcoholic Beverages

In 1943 the first major changes since 1936 were made in the tax structure. The personal property tax and the mercantile license tax on gross receipts were dropped. The action of the General Assembly in retaining the taxes on the newer bases of net income and selected sales marked a significant change in the development of the Commonwealth's tax structure.

TABLE A

COMMONWEALTH OF PENNSYLVANIA

GENERAL FUND TAX RECEIPTS AND PERCENT OF TOTAL REVENUE—1941-1943

(In thousands of dollars)

Rank	General Fund Taxes	Receipts for 1941-1943 Biennium Regular	Emergency	Total	Percent of Total General Fund Revenue
1	Corporate Net Income	.....	90,621	90,621	16.9
2	Capital Stock				
	Domestic	49,436	.....	49,436	9.2
	Foreign Franchise	21,352	.....	21,352	4.0
	Totals—Capital Stock	70,788	.....	70,788	13.2
3	Liquid Fuels	.....	28,137	28,137	5.2
4	Cigarettes	.....	27,516	27,516	5.1
5	Inheritance, Transfer and Estate Inheritance, Transfer and Estate	26,415	.....	26,415	4.9
	Direct Inheritance	28	.....	28	...
	Collateral Inheritance	220	.....	220	.1
	Totals — Inheritance, Transfer and Estate	26,663	.....	26,663	5.0
6	Liquor Sales	.....	24,293	24,293	4.5
7	Gross Receipts of Utilities	7,758	11,541	19,299	3.6
8	Personal Property (State)	.....	19,151	19,151	3.6
9	Alcoholic Beverages	17,312	.....	17,312	3.2
10	Gross Premiums				
	Domestic Insurance	569	.....	569	.1
	Foreign Insurance	15,472	.....	15,472	2.9
	Totals—Gross Premiums	16,041	.....	16,041	3.0
11	Loans				
	Corporate	5,469	5,397	10,866	2.0
	Municipal	4,059	.....	4,059	.8
	Totals—Loans	9,528	5,397	14,925	2.8
12	Shares				
	Banks	4,233	.....	4,233	.8
	Trust Companies	3,321	.....	3,321	.6
		.....	6,744 [1]	6,774 [1]	1.2
	Totals—Shares	7,554	6,774	14,328	2.6
13	Mercantile License	7,976	.....	7,976	1.5
	All Other Taxes [2]	4,552	11	4,563	.9
	GRAND TOTALS	168,172	213,441	381,613	71.1

[1] Emergency tax receipts from both banks and trust companies.

[2] All other taxes (See Table A—Supplement, page 54.)

TABLE A—SUPPLEMENT

COMMONWEALTH OF PENNSYLVANIA
GENERAL FUND TAX RECEIPTS AND PERCENT OF TOTAL REVENUE—1941-1943

(In thousands of dollars)

Detail of All Other Taxes	*Regular*	*Emergency*	*Total*
Penalties and Interest on Taxes and Bonus	1,731	..	1,731
Bonus:			
Domestic	280	..	280
Foreign	1,089	..	1,089
Total—Bonus	1,369	..	1,369
Legal Documents	635	..	635
Stock Transfer and Documentary Stamp	594	..	594
Gross Receipts—Boxing and Wrestling Exhibits	88	..	88
Net Income of Savings Fund Societies	70	..	70
Gross Receipts—Private Banks	48	..	48
Stock of Building and Loan Associations	11	..	11[1]
Emergency Profits	..	7	7[1]
Electric Cooperative Corporations	5	..	5[1]
Emergency Relief Sales	..	4	4[1]
Anthracite	1	..	1[1]
TOTALS	4,552	11	4,563

[1] Delinquent collections of discontinued taxes.

TABLE B

COMMONWEALTH OF PENNSYLVANIA

GENERAL FUND TAX BASES AND RATES AS OF JANUARY 1, 1944

General Fund Taxes (In Order of 1941-1943 Revenue Importance)	*Base of Tax*	*Tax Rate* *Regular*	*Tax Rate* *Emergency*
Corporate Net Income	Net income before federal taxes		4 percent
Capital Stock:			
Domestic	Value of capital stock	5 mills [1]	
Foreign Franchise	Value of capital stock allocated	5 mills [1]	
Liquid Fuels	Gallons sold		1 cent
Cigarettes	Sales to dealers		1 cent per 10 cigarettes
Inheritance and Estate:			
Inheritance Transfer	Transfer of real or personal property	Direct heirs 2% Collateral 10%	
Estate	Federal credit	Difference between transfer inheritance taxes and 80% federal credit	
Liquor Sales	All liquors sold		10 percent
Gross Receipts—Public Utilities:			
Other than Motor Transportation	Gross receipts	8 mills [2]	6 mills [2]
Motor Transportation [3]	Gross receipts	8 mills	

NOTE: Excluded are the taxes on gross receipts of private bankers, on gross receipts of boxing and wrestling exhibits, and on income of savings fund societies. These taxes are unimportant in yield.

[1] Foreign distilling companies subject to 10 mill rate which is imposed under the Act of July 15, 1897 (P. L. 292) which was unaffected by the 1935 amendment to the capital stock tax act.

[2] The 14 mill rate of the gross receipts is considered to consist of a normal rate of 8 mills and an emergency rate of 6 mills. By statute, the total rate will revert to 8 mills at the end of 1944.

[3] Tax receipts from intrastate motor transportation companies only. This tax is imposed as a highway use tax. Receipts from interstate carriers are dedicated to Motor License Fund.

(Continued on page 56.)

TABLE B—*Continued*

COMMONWEALTH OF PENNSYLVANIA

GENERAL FUND TAX BASES AND RATES AS OF JANUARY 1, 1944

General Fund Taxes (In Order of 1941-1943 Revenue Importance)	*Base of Tax*	*Tax Rate* *Regular*	*Tax Rate* *Emergency*
Alcoholic Beverages:			
Malt Beverage	Volume of malt or brewed beverages	4 cents per gallon	
Spirituous and Vinous Liquor	Proof or wine gallon when below proof	Distilled spirits—$1.00 gal.) Rectified spirits—.30 gal.) Wines—.005 per gal.)	
Gross Premiums:			
Domestic	Gross insurance premiums	8 mills	
Foreign	Gross insurance premiums—business in Pennsylvania	2 percent or reciprocal rates	
Loans:	Script, bonds, certificates and evidences of indebtedness held by Pennsylvania residents		
Corporate		4 mills	
Municipal		4 mills	
Shares:			
Banks—State and National	Actual value of shares in hands of holders	4 mills	
Trust Companies[4]	Actual value of shares in hands of holders	5 mills	
Bonus:			
Domestic	Authorized capital stock	2 mills	
Foreign	Capital employed in Commonwealth	3⅓ mills	
Legal Documents	Issuance of legal documents	Various fixed fees	
Stock Transfer Stamp[5]	Sale or transfer of stock	2 cents on each $100 face value or on each share of no par stock	

[4] Title insurance and trust companies, bank and trust companies, and trust companies.
[5] On stock of corporations, co-partnerships, associations and joint stock companies.

TABLE C

COMMONWEALTH OF PENNSYLVANIA
GENERAL FUND TAXES
BASIC TAX ACTS AS LAST AMENDED
AS OF JANUARY 1, 1944

General Fund Taxes	Basic Act	P.L. Number	Basic Acts as Amended: Act	P.L. Number
Corporate Net Income	May 16, 1935	208	May 7, 1943	217
Capital Stock:				
Domestic	June 1, 1889	420	May 27, 1943	762
Foreign Franchise	May 16, 1935	184	May 27, 1943	762
Liquid Fuels	May 21, 1931	149	May 26, 1943	616
Cigarettes	June 14, 1935	341	May 7, 1943	209
Inheritance and Estates:				
Inheritance Transfer	June 20, 1919	521	June 4, 1943	864
Estate	May 7, 1927	859	June 4, 1943	864
Liquor Sales	June 9, 1936	13	May 7, 1943	207
Gross Receipts—Public Utilities:				
Other than Motor Transportation	June 1, 1889	420	May 21, 1943	334
Motor Transportation	June 22, 1931	694	....	...
Alcoholic Beverages:				
Malt Beverage	May 5, 1933	284	April 29, 1937	527
Spirituous and Vinous Liquor	Dec. 5, 1933	38	Dec. 22, 1933	91
Gross Premiums:				
Domestic	June 1, 1889	420	May 25, 1939	212
Foreign	June 1, 1889	420	May 25, 1939	212
Loans:				
Corporate	June 22, 1935	414	July 11, 1941	361
Municipal	June 22, 1935	414	May 18, 1937	633
Shares:				
Banks—National and State	July 15, 1897	292	July 11, 1941	380
Trust Companies[1]	June 13, 1907	640	May 29, 1941	75
Bonus:				
Domestic	April 20, 1927	322	June 21, 1939	609
Foreign	May 8, 1901	150	June 20, 1939	473
Legal Documents	April 6, 1830	272	March 19, 1925	51
Stock Transfer Stamp[2]	June 4, 1915	828	May 27, 1943	680

NOTE: Excluded are the taxes on gross receipts of private bankers, on gross receipts of boxing and wrestling exhibits, and on income of savings fund societies. These taxes are unimportant in yield.

[1] Title insurance and trust companies, bank and trust companies, and trust companies.

[2] On stock of corporations, co-partnerships, associations, and joint stock companies.

Part II: RELATION OF GENERAL FUND TAXES TO ECONOMIC CONDITIONS—1913-1943

At the close of the 19th Century the United States had become an industrial nation. Prior to that time Pennsylvania and the other states of the Union had been primarily dependent upon agricultural economies. However, following the Civil War the nation rapidly developed its transportation and communication facilities, opened up large Western territories for settlement and exploitation of natural resources, developed mines and forests, harnessed its power resources, introduced machine technology and mass production in industry, expanded its capital resources and the means of concentration of capital in large corporate enterprises, and broadened the markets of its industries to a national and international scope.

Pennsylvania was one of the leaders in this industrial revolution and benefited materially from it. The tax policies of the Commonwealth, as early as 1889, reflected the drastic change from a predominantly agricultural to a predominantly industrial economy. In that year the Commonwealth promulgated a complex system of industrial and business taxation which was to remain without fundamental change until 1935.

Economic and General Fund Revenue Periods—1913-1943

In considering the relation of General Fund tax receipts[1] to such economic indices as national income and the Commonwealth's share therein, a general correlation must be established between the key years of such indices and the State's fiscal periods. Most data relating to the tax receipts of the Commonwealth are available only for the year

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[1] Tax receipts, reported for 1913-1923, have been derived from the Reports of the Auditor General; from 1923 to 1943, the basic data have been secured from the Biennial Budgets of the Commonwealth.

of receipts rather than for the year of levy. Furthermore, the state's fiscal year begins with June 1 and ends May 31 of the following year, so that tax receipts, reported for a given biennium, are actually related to the economic factors at work from one to two years earlier.

The approximate dates of the economic periods and the related revenue dates, for each period are as follows:

Economic Periods	*Actual Years*	*Revenue Years*
Pre World War I	1912-1916	1913-1917
World War I	1917-1922	1917-1923
Reconstruction	1923-1929	1923-1931
Depression	1930-1940	1931-1941
Recovery	1941-1942	1941-1943

The Post War I Depression period from 1930 through 1940 will be discussed as two separate revenue periods, 1931-1935 and 1935-1941. This division is necessary in order to give full weight to important revenue changes, brought about by emergency tax legislation in 1935 and 1936.

Although the General Fund's tax receipts in the aggregate and, as reported by the year of actual receipts, cannot be directly correlated with an index of national income, the ratio of General Fund tax receipts to national income and to the Commonwealth's share therein has consistently increased. This is a significant indicator of the unprecedented governmental expansion and attendant costs, which have occurred in the last three decades. Furthermore, the General Fund's taxes, when related to the broad trends of economic development, reveal the effects of the changes in the tax structure upon the volume and stability of the tax yields of the General Fund.

Pre World War I—1912-1916

In 1913 national income amounted[1] to $31.5 billion, but declined, as a temporary effect of the outbreak of World War I in Europe, to $31.2 billion in 1914. Except for the $29.4 billion income in 1912,

[1] The concept of national income is, at best, a doubtful one. It is subject to many defects and qualifications. Used with these qualifications in mind, however, it serves many useful purposes. There are several definitions of national income and several ways of determining it. For this study the definitions, methods, and calculations of the National Industrial Conference Board, Inc., for "realized national income" have been used.

this was the lowest point in the three decades from 1912 to 1942. The role of the United States, as a supplier to the warring nations, soon resulted in an upward turn in the national income to $38.7 billion in 1916. No comparable figures for the Commonwealth's share of the average national income of $32.7 billion for this period are available.

Data derived from the statistics of the United States Bureau of the Census show Pennsylvania's population in 1913 as 7,982,000 or 8.3 percent of the national population of 96,094,000. Based on population, Pennsylvania's share in the average national income for the period would be $2.7 billion, though undoubtedly the share of the Commonwealth was actually higher than indicated. From 1913 to 1917 tax receipts of the General Fund averaged $57.3 million biennially.

World War I—1917-1922

The entrance of the United States into World War I in April, 1917, intensified the economic and industrial expansion of the preceding period. National exports of domestic merchandise increased fourfold from 1913 to 1920. The Commonwealth's industries, particularly the mining of basic metals and coal, were expanded by the war's demand. The close of the war in 1918 was followed by a recession in 1920 and 1921 before a new upswing began in 1922.

The national income of $46.4 billion in 1917 (unadjusted to rising prices) advanced to a new high of $68.4 billion in 1920 before the recession closed this period in 1922 with a national income of $51.2 billion.

The Commonwealth's share of national income in 1919 was $5.4 billion and rose to $6.3 billion in 1920 before declining to $5.2 billion in 1921. In 1922 the effect of the recession continued and Pennsylvania's income reached a low of $5.0 billion, which, however, represented 9.8 percent of total national income. From 1919 to 1922[1] the Commonwealth's average income of $5.5 billion was 9.2 percent of the average national income of $59.8 billion. The proportion of Pennsylvania income to national income rose from 8.7 percent in 1919 to 9.8 percent in 1922, its greatest proportionate share for any year from 1919 to 1942.

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[1] The period, 1919-1922, has been used to provide comparative data, based on the Commonwealth's income, first reported for 1919.

The federal census in 1920 showed an increase in Pennsylvania's population to 8,720,000, an increase of 9.2 percent over 1913. During the period from 1917 to 1923 the average biennial tax receipts of the General Fund amounted to $88.5 million[1] and showed an increase of 54.5 percent over the biennial average of $57.3 million in 1913-1917.

Reconstruction Period—1923-1929

During the 1920's many new and old industries, such as the automobile, moving pictures, chemical products, radio, and household appliances underwent revolutionary developments. Electric power became an increasingly important factor in industry and transportation. The market for consumers' goods was sharply stimulated by the introduction of installment buying. There was also a phenomenal boom in urban construction and industrial products to satisfy demands, bottled up during the war. A pronounced trend toward business consolidation, however, served to decrease the number of business units functioning in the industrial expansion. Investment capital piled up in savings deposits, a great expansion occurred in the total value of life insurance policies, and extensive new investments were made in foreign as well as domestic enterprises, all of which affected the taxable resources of the Commonwealth.

Between 1923 and 1930 there was a significant shift within Pennsylvania's economy. A substantial movement away from the heavy industries, based on natural resources, to the finishing and processing industries took place. The yields from both anthracite and bituminous coal diminished, while growth occurred in manufacturing or processing of foods. Despite the changing structure of industry in the Commonwealth, business in general thrived during this Reconstruction period. Data compiled by the Pennsylvania Department of Internal Affairs placed 1923 as a high point of business activity with a volume of $9.8 billion. Thereafter, until the 1929 peak, the annual volume of business was sustained at a high level, fluctuating only between $8.7 billion and $9.0 billion.

National income at the beginning of the 1923-1929 period had increased sharply from $51.2 billion in 1922 to $65.7 billion in 1923. It continued to increase in each succeeding year, until the peak of $79.5

[1] Derived from actual receipts of 5½ years from December 1, 1917 to May 31, 1923.

billion was reached in 1929. The prosperity of this period was indicated by an average national income of $72.2 billion. From 1923 to 1929 Pennsylvania's income averaged $6.5 billion and was 8.9 percent of the average national income. The Commonwealth began the period with an income of $6.2 billion in 1923, followed by lower amounts of $6.1 billion in 1924 and 1925. The year 1926 showed an increase to $6.6 billion with 1927 and 1928 continuing at about the same level. The high of $7.0 billion, reached in 1929, was about 13 percent more than the $6.2 billion income of 1923.

The federal census of 1930 placed the State's population at 9,631,000, which represented an increase of 10.4 percent over the 1920 census. The increase of Pennsylvania's population, however, was at a rate less than that of the nation and the Commonwealth's proportion of the national population fell from 8.1 percent in 1920 to 7.8 percent in 1930, marking a continued decline from 8.3 percent in 1913. From 1923 to 1931 General Fund tax receipts averaged $144.7 million biennially, an increase of 63.4 percent over the average biennial receipts of $88.5 million from 1917 to 1923. The increase of these biennial receipts from $120.5 million in 1923-1925 to $174.2 million in 1929-1931 was consistent with the general economic trend.

During this period the average annual tax receipts of the General Fund amounted to 1.1 percent of the Commonwealth's average annual income, an increase over the figure of 0.8 percent for 1919-1922.

POST WAR DEPRESSION PERIOD—1930-1940

Depression—1930-1934

The depression years were marked at the outset by a precipitate decline in national income, which dropped from a high of $79.5 billion in 1929 to a low of $44.7 billion in 1933, a decrease of 43.8 percent. The intermediate years showed the stages of the downward trend with income levels of $72.4 billion in 1930, $60.2 billion in 1931, and $46.7 billion in 1932. In 1934, the close of the 1930-1934 period of this decade, national income of $51.6 billion reflected the reversal of the downward trend.

The income of the Commonwealth was affected more than national income by the general economic decline of 1930 to 1934. The 1929 high of state income—$7.0 billion—was followed by successive decreases, until the low of $3.9 billion was produced in 1933. This reduction of the state's income by $3.1 billion between its high and low points constituted a 44.3 percent decrease, compared to the national income decline of 43.8 percent. From 1930 to 1934 Pennsylvania income averaged $4.9 billion and continued to be 8.9 percent of national income.

In the 1931-1933 biennial tax receipts of the General Fund amounted to $153.9 million and, while less than the $174.2 million peak of 1929-1931, were above the average biennial tax receipts of $144.7 million for the 1923-1931 period, despite the sharp decline in total income of the Commonwealth. The severe effects of the depression were registered by the further decline of tax receipts to $129.4 million in 1933-1935. The years from 1931 to 1935 marked the first and (except for 1939-1941) only decrease of biennial tax receipts in the three decades from 1913 to 1943. The average biennial receipts of $141.7 million in 1931-1935 were only 2.1 percent under the corresponding receipts of $144.7 million in the preceding period, 1923-1931. The decline in the tax receipts was accompanied by an increase in the percentage of the Commonwealth's income, taken by taxes for the General Fund. In 1931-1935 average annual tax receipts were 1.4 percent of the state's income in contrast with 1.1 percent in 1923-1931.

The growth of national population in the decade from 1930 to 1940 was at the slowest rate of any decade since 1870. From 1930 to 1934 the increase in national population was 2.8 percent, while that of the Commonwealth was 1.5 percent.

Depression—1935-1940

In this period the shift in the components of Pennsylvania's industries, first noticeable in 1923-1930, continued. The quantity and value of all mine and quarry products fell more than 50 percent between 1927 and 1936. In contrast, there were encouraging developments in the volume of finishing and processing businesses. An index of general business in Pennsylvania, based on 1935-1939 as 100, showed an increase from 90 for 1935 to 113 for 1937, followed by a reversal of trend to 92 for 1938.[1] The year 1939, with an index of 105, marked

[1] *Indexes of General Business of Pennsylvania Cities,* Bulletin No. 1, Bureau of Business Research, Pennsylvania State College, 1942.

a resumption of the upward trend which reached 117 in 1940. Despite these indications of internal improvement, the Commonwealth's average yearly income, while increasing 10.3 percent from 1930-1934 to 1935-1940, fell from 8.9 percent of average national income in 1930-1934 to 8.2 percent in 1935-1940 and the period closed in 1940 with Pennsylvania's income amounting to 8.0 percent of national income.

The Commonwealth's income for the years between 1935 and 1940 showed fluctuations similar to the index of general business in the State and that of national income. The 1935 level of $4.7 billion rose to $5.8 billion in 1937, before reflecting the effect of the short recession of 1938 by a decline to $5.0 billion. An upward trend recurred in 1939 with $5.5 billion and $6.0 billion in 1940, approaching the average income of $6.5 billion attained in the prosperous 1923-1929 period. Average national income increased from $55.1 billion in 1930-1934 to $66.2 billion in 1935-1940, a gain of 20.1 percent in contrast to an increase of only 10.3 percent made by Pennsylvania in that period. In the recession year of 1938 national income was at the level of $62.8 billion, after which it advanced to $75.0 billion in 1940.

The tax receipts of the General Fund were greatly enlarged by emergency tax legislation in 1935 and 1936. The average biennial receipts of $315.6 million for 1935-1941 were 123 percent greater than the average of $141.7 million for 1931-1935. In 1935-1937 biennial tax receipts of $296.5 million more than doubled the receipts of the preceding biennium. In 1937-1939 an increase to $327.6 million occurred and was followed in 1939-1941 by a slight decrease of 1.5 percent to $322.7 million before receipts in 1941-1943 reached $381.6 million, a new high level of all time.

A striking change now occurred in the relation of tax receipts of the General Fund to the Commonwealth's income. At a time when the Commonwealth's proportion of national income had declined perceptibly, average General Fund annual tax receipts soared from 1.4 percent of the state's total income in 1931-1935 to 2.9 percent in 1935-1941, more than doubling the percentage of state income taken by General Fund taxes. This sharp divergence in the relation of the average annual tax receipts of the General Fund to the Commonwealth's average income for 1930-1934 is high-lighted by contrasting the 123 percent increase in average biennial tax receipts over 1931-1935 against the increase of 10.3 percent during the period in Pennsylvania's total income.

Despite an increase of 2.8 percent in population between 1930 and 1940, the Commonwealth's population in 1940 was only 7.5 percent of the national population compared with 7.8 percent in 1930. This proportionate decrease marked the continuance of a downward spiral from 1913, when Pennsylvania's population was 8.3 percent of the national total. From 1935 to 1940 the state's population increased 1.6 percent or at about the same rate as in 1930 to 1934. On the other hand, the national population, which had increased 2.8 percent from 1930 to 1934, advanced its rate of increase to 3.7 percent from 1935 to 1940.

Recovery Period—1941-1942

National income, under the impetus of World War II, rose from $75.0 billion in 1940 to $90.0 billion in 1941, well above the 1929 peak of $79.5 billion, and ascended to another all-time high of $115.0 billion in 1942. The average annual national income of these two years was $102.5 billion and represented an increase of 67.5 percent over the $61.2 billion average of the preceding economic period of 1930-1940.

The Commonwealth's income level also reacted sharply to the economic forces set in motion by the advent of World War II. While California, according to various indices, with its enormous production of military aircraft, has replaced Pennsylvania, as the second ranking State in the share of national income, there has been a tremendous expansion in the Commonwealth's industrial and business activity. Pennsylvania's income rose from $6.0 billion in 1940 to $7.1 billion in 1941, exceeding the 1929 peak of $7.0 billion. In 1942 an income of $9.1 billion established a new all-time high for Pennsylvania.[1]

Nevertheless, the Commonwealth's average income of $8.1 billion for 1941-1942, although 56.7 percent above its average income for

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[1] State income from 1940 to 1942, as estimated by the Pennsylvania Economy League, Inc., from data on the distribution of realized national income, by states, of the National Industrial Conference Board, Inc.

1930-1940, had declined to 7.9 percent of average national income for these years. This percentage also applied to the individual years, 1941 and 1942.

The tax receipts of the General Fund in 1941-1943 were $381.6 million, an increase of 20.9 percent above the average biennial General Fund receipts of $315.6 million for 1935-1941. This increase in tax receipts, however, did not equal the gain of 50.0 percent in the Commonwealth's average income for the corresponding period. The proportion of average annual General Fund tax receipts to the state's income decreased from 2.9 percent in 1935-1941 to 2.4 percent in 1941-1943.

It is estimated that the nation's population will reach 140,561,000 in 1950.[1] Upon this basis national population will increase 6.5 percent over 1940, compared to a gain of 7.2 percent from 1930 to 1940, a decade in which national population had its slowest growth since 1870-1880. Pennsylvania's population in 1950 is estimated at 10,200,000 in a projection prepared by the State Planning Board of the Pennsylvania Department of Commerce, reflecting an estimated growth of 3.0 percent for the decade 1940-1950. Based upon these estimates, the Commonwealth's population in 1950 would be 7.3 percent of the national population, marking a continuation of the constant downward trend, evidenced in each economic period since 1913.

SUMMARY—1913-1943

In 1913 the national income was $31.5 billion and increased more than threefold to $115.0 billion in 1942, with the general upward trend interrupted by the recessions of 1921-1922, 1930-1933, and 1938. No comparable data on income for the Commonwealth are available before 1919, when the state's income was $5.4 billion. Pennsylvania's income has been estimated at $9.1 billion in 1942, an increase of 66.9 percent over 1919, with national income increasing 82.7 percent in the same period. The Commonwealth's proportionate share of national income in terms of average income by economic periods, decreased steadily from 9.2 percent in 1917-1922 to 7.9 percent in 1941-1942.[2] It's largest

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[1] Statistical Abstract of the United States, U. S. Department of Commerce 1942.

[2] Percentage based upon 1919-1922 data. No comparable income figure for the Commonwealth was available before 1919.

share of national income from 1919 to 1942 was 9.8 percent in the recession year of 1922.

The tax receipts of the General Fund increased in each biennium of the economic periods from 1913 to 1929, rising from $56.6 million in 1913-1915 to $174.2 million in 1929-1931, or 208 percent. In the 1930-1940 depression period General Fund tax receipts had declined in 1933-1935 to $129.4 million, a decrease of 25.7 percent from the peak of 1929-1931. The emergency taxes of 1935 and 1936 greatly increased tax receipts and, aided by the stimulus of the 1941-1942 recovery period, General Fund tax receipts reached in 1941-1943 a high of $381.6 million, which was 195 percent over the level 1933-1935 and 574 percent above the 1913-1915 biennial tax receipts of $56.6 million. Average annual General Fund tax receipts in the 1923-1931 period amounted to 1.1 percent of the Commonwealth's income and the relation was fairly indicative of the individual years. In the 1931-1933 biennium the proportionate annual average rose to 1.6 percent, before declining to 1.5 percent in 1933-1935. After the introduction of emergency taxes in 1935 and 1936, average annual tax receipts of the General Fund, as a percentage of state income, climbed to 2.9 percent in 1935-1937 and to 3.0 percent in 1937-1939, after which they declined to 2.8 percent in 1939-1941. In the Recovery period the 1941-1943 average annual tax receipts of the General Fund further decreased to 2.4 percent of the state's income.

The national population of 96,094,000 in 1913 increased by 37.3 percent to 131,954,000 in 1940. During the same period Pennsylvania's population increased by 24.0 percent from 7,982,000 to 9,900,000. The proportion of the Commonwealth's population to national population was 8.3 percent in 1913, 8.1 percent in 1920, 7.8 percent in 1930, and 7.5 percent in 1940. The lower rate of growth of Pennsylvania's population and its consistently declining proportion of the national population and of national income indicate that the Commonwealth, as one of the older, more settled states, must give thought to the conditions which have caused these adverse trends.

NATIONAL INCOME AND PENNSYLVANIA INCOME—1912 TO 1942

Economic Periods		*National Income*[1] *Average Annual Amounts*	*Penna. Income*[2] *Average Annual Amounts*	*Percent of*[2] *National Income*
		(In millions of dollars)		
Pre World War I	1912-1916	32,671	not available	...
World War I	1917-1922	57,095	5,490[3]	9.2[3]
Reconstruction	1923-1929	72,230	6,458	8.9
Post War Depression	1930-1934	55,116	4,900	8.9
	1935-1940	66,187	5,405	8.2
Recovery	1941-1942	102,500[1]	8,103[4]	7.9[4]

Footnotes on Page 70.

NATIONAL POPULATION AND PENNSYLVANIA POPULATION—1913 TO 1940

Federal Census Dates	*National Population*	*Pennsylvania Population*	*Percent of National Population*
	(In thousands)		
1910	91,972	7,665	8.3
1913[5]	96,094	7,982	8.3
1920	107,190	8,720	8.1
1930	123,077	9,631	7.8
1940	131,954	9,900	7.5
1950	140,561[6]	10,200[7]	7.3[7]

Footnotes on Page 70.

AVERAGE TAX RECEIPTS OF THE GENERAL FUND COMMONWEALTH OF PENNSYLVANIA

Economic Periods	*Related Revenue Periods*	*Average Tax Receipts Biennial*	*Average Tax Receipts Annual*	*Percent of Average National Income*	*Percent of Average Pennsylvania Income*
		(In thousands of dollars)			
Pre World War I	1913-1917	57,293	28,647	.09	not available
World War I	1917-1923	88,527	44,264	.08	0.8
Reconstruction	1923-1931	144,702	72,351	.10	1.1
Post War Depression	1931-1935	141,681	70,841	.13	1.4
	1935-1941	315,572	157,786	.24	2.9
Recovery	1941-1943	381,613	190,807	.19	2.4

HIGH AND LOW POINTS OF NATIONAL INCOME, PENNSYLVANIA INCOME, AND TAX RECEIPTS OF GENERAL FUND OF THE COMMONWEALTH OF PENNSYLVANIA

		Income				Tax Receipts	
		National		Pennsylvania			
Economic Periods		*Year*	*Amount* (In millions of dollars)	*Year*	*Amount* (In millions of dollars)	*Biennium*	*Amount* (In thousands of dollars)
Pre World War I, 1912-1916	Low	1912	29,422	....	....	1913-1915	56,611
	High	1916	38,739	....	....	1915-1917	57,974
World War I, 1917-1922	Low	1917	46,376	1922 [8]	5,006	1917-1919	78,573
	High	1920	68,434	1920 [8]	6,328	1921-1923	105,491
Reconstruction, 1923-1929	Low	1923	65,662	1924	6,056	1923-1925	120,513
	High	1929	79,498	1929	7,026	1929-1931	174,200
Post War Depression, 1930-1934	Low	1933	44,713	1933	3,880	1933-1935	129,442
	High	1930	72,398	1930	6,524	1931-1933	153,920
1935-1940	Low	1935	56,546	1935	4,652	1935-1937	296,462
	High	1940	75,000	1940	5,963	1937-1939	327,604
Recovery, 1941-1942	Low	1941	90,000	1941	7,105	....	......
	High	1942	115,000	1942	9,100	1941-1943	381,613

[1] Realized national income, as reported by National Industrial Conference Board, Inc.

[2] From estimates of National Industrial Conference Board, Inc., for realized national income by states, not adjusted for net international transfers, interest, and dividends.

[3] Average of period from 1919 to 1922. Percentage obtained by using average national income for 1919 to 1922 as divisor.

[4] State income from 1940 to 1942, estimated by Pennsylvania Economy League., Inc., from data on distribution of realized national income by states, reported by National Industrial Conference Board, Inc.

[5] Derived from Statistical Abstract, Bureau of Census, U. S. Department of Commerce.

[6] Estimated in Statistical Abstract, 1942, Bureau of Census, U. S. Department of Commerce.

[7] Estimated by State Planning Board, Pennsylvania Department of Commerce.

[8] Income data for Pennsylvania not available for 1917-1919.

The Effects of Economic Factors on the Yields of Major Taxes of the General Fund—1913-1943

Economic conditions have been an important, but subordinate factor in the growth of General Fund tax revenues from 1913 to 1943. Throughout this period, and particularly after 1935, legislative factors have been predominant and have occasioned increases in total General Fund tax receipts unrelated to such an economic index as the national income.

The major taxes of the General Fund in 1913-1915, however, contained six taxes, which have been comparatively unaffected by legislative changes or wherein changes, such as the addition of emergency rates, can be accurately determined. The basic law of one of these taxes, the capital stock tax, was radically changed in 1935, but this change has been compensated for by estimating the revenue results of this legislation. These six taxes on the gross receipts of utilities and merchandisers (the mercantile license tax), the gross premiums of insurers, the capital stock of corporations, corporate and municipal loans, and shares of banks and of trust companies provide a basic measure of the effects of economic conditions on the General Fund tax structure from 1913 to 1935. After 1935, by observation of the yields of these taxes at their normal rates and of the capital stock tax as adjusted, the approximate influence of economic factors can be set out.

The review of the effect of economic conditions on tax revenues does not take into account: (1) minor legislative changes in the tax laws, and (2) the economic effects on the receipts of taxes other than the six major taxes. Subject to these modifications, the following discussion identifies the major tax revenues of the General Fund as follows: (1) the receipts of the six major taxes in 1913-1917 on business and property at their normal rates and, in the case of the capital stock tax, as adjusted for major legislative amendments; (2) the receipts of the inheritance tax which were predominated by legislative changes; (3) the receipts of those major normal taxes, added to the general fund from 1913 to 1943; (4) receipts from the emergency rates, superimposed on the normal rates of normal taxes; (5) the estimated receipts, resulting from the amendment of the capital stock tax; and (6) the receipts from the major emergency taxes.

The average biennial receipts of general fund major taxes, by economic periods and by the above classifications, can be observed in the Table 1, following.

TABLE 1

AVERAGE BIENNIAL YIELDS OF MAJOR TAXES OF GENERAL FUND BY ECONOMIC PERIODS—1913-1943

(In millions of dollars)

	Revenue Dates Corresponding to Economic Periods					
	1913-1917	*1917-1923*[1]	*1923-1931*	*1931-1935*	*1935-1941*	*1941-1943*
Normal Taxes						
Capital Stock	23.4	28.7	39.4	37.1	39.8[2]	48.8[2]
Gross Receipts	3.9	6.4	8.2	6.8	6.4	7.8
Gross Premiums	4.0	7.3	10.8	12.1	13.0	16.1
Loans	7.0	10.3	13.5	15.2	13.9	9.5
Shares	4.6	4.5	6.2	6.0	7.0	7.6
Mercantile	6.7	7.8	8.5	6.1	7.1	8.0
(1) Sub-totals	49.6	65.0	86.6	83.3	87.2	97.8
(2) Inheritance	4.9	18.1	39.0	41.1	38.9	26.7
(3) { Anthracite	...	...	11.9	...	...	...
(3) { Alcoholic Beverages	...	...	...	7.9	15.4	17.3
(4) Normal Taxes Emergency Rates[3]	...	...	...	...	16.8	23.6
(5) Capital Stock (Amendment 1935)	...	...	...	...	20.0[2]	22.0[2]
Totals—Normal	54.5	83.1	137.5	132.3	178.3	187.4
Emergency Taxes						
Liquid Fuels	...	...	...	...	27.0	28.1
Cigarettes	...	...	...	...	22.1	27.5
Liquor Sales	...	...	...	...	12.7	24.3
Corporate Net Income	...	...	...	...	46.9	90.6
Personal Property	...	...	...	...	21.7	19.2
(6) Totals—Emergency	...	...	...	...	130.4	189.7
Totals—Major Taxes	54.5	83.1	137.5	132.3	308.7	377.1
Percent of Total General Fund Tax Receipts	95.2	93.4	95.0	93.4	98.0	98.8

[1] Derived average from 5½ years' actual receipts.
[2] Distribution of total capital stock tax revenues estimated.
[3] On gross receipts of public utilities, corporate loans, and shares of banks and trust companies.

Major Tax Revenue Increases from Economic Factors in 1931-1935 and 1935-1941

In 1913-1917 the average biennial receipts of the major taxes of the General Fund amounted to $54.5 million, which was comprised of the aggregate receipts of $49.6 million from the six normal taxes on business and property, and receipts from the inheritance taxes, $4.9 million. The average annual national income from 1912 to 1916 amounted to $32.7 billion. The following table presents comparative indices of the growth of: national income; receipts from the six normal taxes on business and industry; and, total receipts from all General Fund major taxes.

Economic Periods	*Dates of Periods*		*Index of Average National Income 1912-1916 = 100*	*Index of Average Biennial Receipts From Six Normal Taxes 1913-1917 = 100*	*Index of Average Biennial Receipts From All Major Taxes 1913-1917 = 100*
	Economic	*Revenue*			
Pre World War I	1912-1916	1913-1917	100	100	100
World War I	1917-1922	1917-1923	175	131	152
Reconstruction	1923-1929	1923-1931	221	175	252
Post War I Depression					
Early	1930-1934	1931-1935	169	168	243
Late	1935-1940	1935-1941	203	176	566
Recovery	1941-1942	1941-1943	314	197	692

The foregoing table demonstrates the lack of correlation between the indices of the total receipts from all major taxes of the General Fund and national income and emphasizes the approximate correlation of the index of the six normal taxes on business and property to the economic index.

Analysis of Table 1 shows that the increase of $77.8 million in the average biennial General Fund major tax receipts between 1913-1917 and 1931-1935 was comprised of:

	Increase 1931-1935 over 1913-1917 (In millions of dollars)	*Percent of Total Increase*
(1) Increase in tax receipts from six major normal taxes on business and property	33.7	43.3
(2) Increase in inheritance tax receipts	36.2	46.5
(3) Receipts from added normal taxes	7.9	10.2
Total Increase	77.8	100.0

The increase of $33.7 million in the tax receipts from the six normal major taxes on business and property raised the index for this group from 100 to 168 in direct correlation with the national income index of 100 and 169 for the related periods. As a general conclusion, approximately 43 percent of the increased General Fund receipts from major taxes in 1931-1935 compared with 1913-1917 can be attributed to economic factors.

After 1935 the introduction of emergency taxes more than doubled the major tax receipts of the General Fund. This increase, resulting from legislative action, greatly diminished the proportionate share of the total increase in General Fund major tax receipts in 1935-1941 over 1913-1917 which can be directly related to economic developments.

In 1935-1941 the average biennial receipts of General Fund major taxes were $308.7 million compared with $54.5 million in 1913-1917. An analysis of this increase of $254.2 million shows the following detail:

	Increase 1935-1941 over 1913-1917 (In millions of dollars)	*Percent of Total Increase*
(1) Increase in tax receipts from six major normal taxes on business and property	37.6	14.8
(2) Increase in inheritance tax receipts	34.0	13.4
(3) Receipts from added normal taxes	15.4	6.0
(4) Receipts from added emergency rates on normal taxes	16.8	6.6
(5) Increase in receipts resulting from 1935 amendment of capital stock tax	20.0	7.9
(6) Receipts from added major emergency taxes	130.4	51.3
Total Increase	254.2	100.0

In 1935-1941 the basic six normal taxes contributed $37.6 million of the total increase in average biennial major tax receipts of the General Fund. However, following the great increases, caused by the legislation of emergency taxes and rates and the amendment of the capital stock tax law, the increased receipts from the basic six normal taxes represented only 14.8 percent of the total increase of the average biennial receipts from General Fund major taxes in 1935-1941 compared with 43.3 percent in 1913-1917. The subsequent advance of receipts from the major taxes of the General Fund from a biennial average of $308.7 million in 1935-1941 to $377.1 million in 1941-1943 can be attributed to economic conditions, for every major tax, with the exception of those on inheritances, loans, and personal property showed an increase over the 1935-1941 average.

Reaction of Six Selected Normal Taxes—1913-1943

An analysis of the behavior of the basic six normal taxes of the General Fund, selected as most influenced by economic conditions, shows their individual and group characteristics. In the following table these taxes are classified as business volume or property[1] taxes and

[1] Of the three taxes on a property base, the taxes on capital stock and on shares are only indirectly related to current economic fluctuations by the formula for determining the taxable value of the stock.

indices are established for the individual taxes, the groups, and for the six taxes in total. Average biennial tax receipts of the period 1913-1917 have been taken as the base in each case.

Tax	*1913-1917*	*1917-1923*	*1923-1931*	*1931-1935*	*1935-1941*	*1941-1943*
Capital Stock	100	123	168	159	170	209
Loans	100	147	193	217	199	136
Shares	100	98	135	130	152	165
Combined Normal Taxes on Property Base	100	124	169	167	173	188
Gross Receipts	100	164	210	174	164	200
Mercantile	100	116	127	91	106	119
Gross Premiums	100	183	270	303	325	403
Combined Normal Taxes on Business Volume Base	100	147	188	171	182	219
Combined Normal Taxes on Property and Business Volume Bases	100	131	175	168	176	197
National Income Index for Related Economic Periods	100	175	221	169	203	314

An examination of the indices of the combined normal taxes on a property base, the combined normal taxes on a business volume base, and the total of the six taxes shows; first, the aggregate of receipts from taxes on business volume reacts the most directly to changes in the national income; secondly, the aggregate of receipts from normal taxes on property show a smaller, but general correlation; and, finally, these six taxes in total show a modified correlation to national income, reacting generally at less than one-half the rate of increase of national income, but evidencing no comparable ratio of decrease in periods of economic decline.

Within the group of taxes on a property base, the taxes on shares and loans show points of conflict with the general economic trends, while the capital stock tax receipts show a general correlation. The taxes, based on business volume, show, from 1913 to 1935, that the gross premiums tax was without direct correlation after 1931; the gross receipts tax had a general correlation; and, the mercantile license tax within a very narrow range exhibited the best correlation. After 1935 the taxes on gross receipts and mercantile licenses failed to show the same degree of correlation, exhibited from 1913 to 1935, and in 1941-1943 the index of both these taxes was below that of 1923-1931. However, the aggregate of receipts from taxes on business volume showed a general correlation with economic conditions, due to the continued growth of receipts from the gross premiums tax.

Reaction of Emergency Taxes—1935-1943

The emergency taxes, added in 1935 and 1936, have not been operative long enough or under circumstances sufficiently favorable to determine precisely their long-term behavior in the Pennsylvania tax structure. In the following table, the receipts of the last three biennia from the emergency taxes on selected sales and corporate net income are compared with the biennial receipts from the normal rates of taxes on gross receipts, gross premiums, and mercantile licenses, which have been previously analyzed for the entire period 1913-1943. (The biennium, 1935-1937, has been omitted, for not all of the emergency taxes were operative or at same rates as in later biennia.)

	1937-1939	*1939-1941*	*1941-1943*	*1937-1939*	*1939-1941*	*1941-1943*
	(Amounts in thousands of dollars)			*(Index 1937-1939 = 100)*		
Normal Taxes on Business Volume Base at Normal Rates						
Gross Premiums	12,372	13,746	12,943	100	111	105
Mercantile Licenses	7,040	7,665	7,976	100	109	113
Gross Receipts	6,023	6,513	7,758	100	108	129
Average Biennial Receipts	8,478	9,308	9,559	100	110	113
Emergency Taxes on Selected Sales						
Liquid Fuels	27,832	30,761	28,137	100	111	101
Cigarettes	22,450	24,394	27,516	100	109	123
Liquor Sales	15,148	15,725	24,293	100	104	160
Average Biennial Receipts	21,810	23,627	26,649	100	108	122
Emergency Tax on Corporate Net Income						
Biennial Receipts	44,533	53,344	90,621	100	120	203
National Income (In billions of Dollars	131.8	143.5	205.0	100	109	156

The reactions of the emergency sales taxes and the normal taxes on volume of business to the upward trend in national income from 1937-1939 to 1939-1941 were very similar. There were several factors in the 1941-1943 biennium, which accounted for the irregular reactions of the selected sales taxes, when compared with the business volume taxes. The federal rationing of gasoline decreased the 1941-1943 receipts from the liquid fuels tax, while the stimulation of the war has greatly increased liquor sales and cigarette sales in Pennsylvania. On the whole, the differences which appear in 1941-1943 are of less importance than the similarity in the reactions of the normal taxes and the emergency sales taxes in the more normal 1939-1941 period.

The reaction of the selected sales taxes to economic change in normal times can be realated to that of the normal taxes on volume of business. Experience in other states, however, indicates that the selected sales taxes generally exhibit a more immediate and positive reaction to economic changes than taxes measured by gross receipts.

The receipts of the corporate net income tax reveal by far the greatest reaction to the upswing in business activity from 1939 to 1943. This tax can be expected to show the most acute response of any of the taxes to increases or decreases in national and state income, as is shown by the fact that in 1941-1943 this tax produced approximately 24 percent of the General Fund's receipts from major taxes, compared with approximately 17 percent in 1939-1941, when business activity was on a lower level.

The wide swings of the corporate net income tax and the responsiveness of the selected sales taxes to economic conditions, which reaction is greater than that of any other of the General Fund's taxes on a business volume base, make these taxes of particular importance in revenue considerations. Inasmuch as these taxes have come to represent about 45 percent of total General Fund tax revenues in 1941-1943, the severity of the revenue problems of the General Fund will be accenuated in times of economic decline. Although they produce large yields under favorable economic conditions, an abrupt decrease in the volume of their receipts tends to occur at the time when the revenue needs of government are increasing. The incorporation of these taxes in the General Fund tax structure, therefore, poses a problem of stability, the solution of which is vital to the reestablishment of a permanent tax structure to support the new level of revenue.

Distribution of Receipts of Major Taxes by Relation of Their Bases to Economic Factors

The major taxes of the General Fund, when grouped according to the responsiveness of their tax bases to economic factors, show tremendous changes in the aggregate receipts from normal taxes (including their emergency rates) and in those from emergency taxes, particularly in their percentage distribution in each period. In Table 2 which follows the average biennial yields of the General Fund's major taxes are grouped as follows:

I. Tax Bases *Directly* Affected by Economic Changes
- a. Corporate Net Income
- b. Selected Sales
  - Liquid Fuels, Cigarettes, Liquor Sales and Alcoholic and Malt Beverages
- c. Gross Volume of Business
  - Gross Receipts of Public Utilities, Mercantile License, and Gross Premiums of Insurance Companies

II. Tax Bases *Indirectly* Affected by Economic Changes
- a. Property
  - Capital Stock, Corporate and Municipal Loans, and Shares of Banks and Trust Companies
- b. Personal Property

III. Tax Bases with an *Indefinite Relation* to Economic Changes
- a. Inheritance and Estate

TABLE 2

RECEIPTS OF MAJOR TAXES OF GENERAL FUND[1]—1913-1943—RELATED BY TAX BASES TO ECONOMIC CHANGES

(Amounts in thousands of dollars)

Relation to Economic Changes	*1913-1917*	*1917-1923*	*1923-1931*	*1931-1935*	*1935-1941*	*1941-1943*
Direct	14,650	21,403	39,452	32,905	158,170	231,195
Indirect	35,043	43,569	59,083	58,299	111,636	119,203
Indefinite	4,896	18,101	38,995	41,065	38,884	26,663
Totals	54,589	83,073	137,530	132,269	308,690	377,061
Relation to Economic Changes			*Percentage Distribution*			
Direct	26.8	25.8	28.7	24.9	51.2	61.3
Indirect	64.2	52.4	43.0	44.1	36.2	31.6
Indefinite	9.0	21.8	28.3	31.0	12.6	7.1
Totals	100.0	100.0	100.0	100.0	100.0	100.0

[1] Including emergency taxes and emergency rates on normal taxes.

From 1913 to 1935 the most marked increase in General Fund major tax revenues was from the inheritance taxes, which have only an indefinite or indeterminable relation to short-term economic changes.

The other major taxes, added during the period, the anthracite tax and the malt and alcoholic beverages taxes, on bases directly related to economic changes, were of much less revenue importance. As a result, the share of the taxes, indirectly affected by changes in the national income, decreased from a predominating 64.2 percent in 1913-1917 to 43.0 percent of General Fund major tax receipts in 1923-1931. The percentage of total major tax receipts, derived from inheritance taxes in the same periods, increased from 9.0 percent to 28.3 percent. The receipts from taxes, directly related to economic changes, aided by the addition of new taxes, remained fairly constant and were 26.8 percent of the total General Fund major tax receipts in 1913-1917 and 28.7 percent in 1923-1931.

The shifts among the groups, created by the emergency taxes on selected sales and corporate net income, resulted in a percentage increase in the receipts from taxes, directly related to economic changes, with the percentage rising from 24.9 percent of total General Fund major tax receipts in 1931-1935 to 51.2 percent in 1935-1941. The receipts from the taxes, indirectly related to economic trends, fell from 44.1 percent of the General Fund major tax revenue total in 1931-1935 to 36.2 percent in 1935-1941, despite the addition of the emergency personal property tax and emergency tax rates on corporate loans and on shares. The inheritance tax decreased from 31.0 percent of total receipts from major taxes of the general fund in 1931-1935 to 12.6 percent in 1935-1941.

The effect of the sharp upturn in national income in 1941-1943 is evidenced by changes in the percentage distribution consistent with the characteristics of the groups. From 1935-1941 to 1941-1943 General Fund major taxes, directly related to economic changes, increased in amount and proportionately from 51.2 percent to 61.3 percent of the total General Fund major tax receipts; taxes, indirectly related, while increasing in amount, decreased from 36.2 percent to 31.6 percent; and the inheritance taxes decreased both in amount and in their proportion, which declined from 12.6 percent to 7.1 percent of the total receipts from General Fund major taxes in 1941-1943.

The change in the General Fund tax structure from a status in which taxes, only indirectly influenced by economic factors, produced the major portion of receipts to the present position, where two-thirds of the total General Fund major tax receipts are from taxes, directly related to economic changes, was not a gradual shift, but an abrupt occurrence of recent date. Prior to 1935 the development of inheritance and estate taxation had been the chief cause of the redistribution of the percentage of General Fund receipts from major taxes. This, together with the addition of new normal taxes, directly related to economic conditions, had resulted in decreasing the proportion of receipts derived from taxes on bases, indirectly related to current economic changes, from 64.2 percent of General Fund major tax receipts in 1913-1917 to 44.1 percent in 1931-1935. After 1935 the proportion of total General Fund receipts from major taxes, other than those directly related to economic changes, was drastically reduced, despite the addition of emergency rates on many normal taxes and the changes in the capital stock tax. The tremendous increase in the amount of receipts from General Fund major taxes, directly related to economic changes, reduced the proportion of receipts from all other major taxes of the General Fund from 75.1 percent of the aggregate in 1931-1935 to 38.7 percent in 1941-1943. Conversely, the proportion of receipts from taxes, directly related to economic changes, increased from 24.9 percent to 61.3 percent of the total General Fund major tax receipts in the same periods.

Consequently, this tremendous shift, which occurred after 1935, committed the General Fund to dependence upon taxes, directly affected by economic changes, for nearly two-thirds of its major tax receipts. It has been pointed out earlier that the stability of the tax structure from 1913 to 1935 was largely attributable to the predominance of taxes, only indirectly related to economic factors, and, therefore, restricted both in the rate and in magnitude of changes in yields. The new taxes, on bases directly related to changes in the economic conditions, have, as a recognized characteristic, an immediate and positive reaction in a marked degree to short-term, as well as long-term, changes in the trends of national or state income.

SUMMARY

Until 1935 the effects of economic conditions upon the growth of receipts from General Fund major taxes can be easily distinguished. Although the tax structure was such that changes in total receipts from major taxes were not commensurate with economic changes, six of the seven major normal taxes in 1913 showed a definite relationship to such an economic index as the national income. After 1917, as the receipts from inheritance and estate taxes greatly enlarged in volume, the correlation between the aggregate of receipts from the General Fund's major taxes and national income diminished, but in 1931-1935 about 40 percent of the total increase over 1913-1917 in the receipts from major taxes of the General Fund could still be attributed to the development of higher levels of national income.

After 1935 the receipts from the emergency tax measures reduced the relative revenue importance of the receipts from the major normal taxes of the General Fund by about one-half. Consequently, the portion of the total increase between 1913-1917 and 1935-1941 in receipts from General Fund major taxes, stemming from economic factors, dropped to about 15 percent in contrast with 40 percent in the preceding period, 1931-1935. The increase of all major tax receipts of the General Fund in 1941-1943 over the biennial average of 1935-1941, however, can be attributed chiefly to the extraordinary economic upswing following 1940.

The predominance after 1935 of emergency taxes, based on selected sales and corporate net income, greatly increased the responsiveness of the General Fund tax structure to economic changes. The behavior of these taxes is similar to that of the normal taxes on gross receipts and on mercantile licenses (now repealed), but show a more pronounced reaction to economic changes, particularly in periods of decline. In 1913-1917 only about 27 percent of the total receipts from the General Fund's major taxes was derived from taxes on bases, directly related to economic conditions, while in 1941-1943 such receipts accounted for about 61 percent.

The enormous yields of the corporate net income tax and the taxes on selected sales since 1935 should not obscure a vitally important shift within the General Fund tax structure. The problem in taxes, directly related to economic factors, is to balance their rates and bases so that they are not over-productive in good times and under-productive in bad times. The present predominance of receipts from taxes on bases, directly related to short-term changes in national or state economy, makes the future performance of these taxes and their part in the tax structure of the General Fund a major concern of the Commonwealth. A level of governmental expenditure, encouraged and supported by the revenue production of these taxes in times of increasing national income, will inevitably require additional taxation of these or other sources of revenue in times of declining national and state income. The former balance of the different tax bases in the tax structure, which insured a relatively stable and consistent level of tax revenues, no longer exists. The overwhelming dependence of the Commonwealth on taxes, directly related to economic changes, which now prevails, gives no assurance of future stability and, it is to be hoped, will prove only a transitional stage in the formation of a new, more rational, and more constructive tax structure.

TAX RECEIPTS OF THE GENERAL FUND—BY MAJOR TAXES—1913-1943

The tremendous increase in General Fund tax receipts from $56.6 million in the 1913-1915 biennium to $381.6 million in 1941-1943 was not the result of a consistent and uniform growth in the yields of the major taxes.[1] New taxes were added, tax rates were changed, and the incidence provisions of the tax laws were amended. Prior to 1935 the outstanding increase in General Fund tax receipts resulted from legislation in regard to the taxation of inheritances and estates. After this date the prime cause of the doubling of tax receipts was the enactment of emergency taxes, the revenue importance of which equalled that of the previously existing normal tax structure.

The course of each of the major taxes of the General Fund, which were in effect in the period, 1913-1943, is analyzed in the following paragraphs. From 1913 to 1923 the major taxes were seven in number; from 1923 to 1935, eight; and from 1935 to 1943 there were thirteen categories of major revenue importance. In the aggregate, there were fourteen taxes, which accounted for $2,455 million, or 96.3 percent of the General Fund's total tax receipts of $2,550 million.

Capital Stock Tax Receipts—1913-1943

In 1913-1943 the tax on the capital stock of domestic and foreign corporations was the prime tax of the General Fund. Average biennial

[1] For the components of the major taxes see Table B, Part I of this study, pages 55 and 56.

receipts of $41.2 million from this tax represented 23.8 percent of the total General Fund tax receipts in this period.

In 1913-1935 this tax ranked first in each period, except for 1931-1935, when it was second to the inheritance tax. In 1935-1943 it again ranked first, except for 1941-1943, when its receipts were exceeded by those of the corporate net income tax.

Although the average biennial yields of $23.4 million from this tax in 1913-1917 increased 203 percent to $70.8 million in 1941-1943, the proportion of capital stock tax receipts of the total General Fund tax receipts was 40.8 percent in the first period, but decreased in successive periods to 18.5 percent in the last period. The biennial averages of the capital stock tax receipts showed a consistent increase over the three decades, except for 1931-1935, when they receded from $39.4 million for 1923-1931 to $37.1 million for 1931-1935. Its actual biennial receipts showed a low of $23.3 million for 1915-1917 in contrast to the high of $70.8 million in 1941-1943.

TABLE 3

CAPITAL STOCK TAX RECEIPTS [1] BY ECONOMIC PERIODS—1913-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1913-1917=100*
1913-1917	1	23,395	40.8	100
1917-1923	1	28,739 [2]	32.3	123
1923-1931	1	39,375	27.2	168
1931-1935	2	37,051	26.2	158
1935-1941	1	59,835	19.0	256
1941-1943	2	70,788	18.5	303
1913-1943	1	41,201	23.8	176

[1] Includes yields from capital stock tax on domestic and foreign corporations and, after 1935, from the foreign franchise tax.
[2] Comparative average derived from 5½ years of actual receipts.

The 1935 amendments to the capital stock tax law suspended for two years the exemption from this tax of all capital employed in manufacturing within the State, and changed the tax base for foreign corporations from property to value of business privilege. In 1937 the manufacturers' exemption was repealed outright. It was restored in 1943 by the General Assembly, but the exemption becomes effective only after the present war.

These measures resulted in a sharp increase of the average biennial yields of the capital stock tax from $37.1 million in 1931-1935 to

$59.8 million in 1935-1941. The average biennial receipts from the tax on domestic corporations increased from $35.1 million to $46.0 million and those from the tax on foreign corporations from $2.0 million to $13.8 million between 1931-1935 and 1935-1941. In 1941-1943 the capital stock tax receipts further increased to $70.8 million or 18.3 percent over the 1935-1941 biennial average.

Loans Tax Receipts—1913-1943

In 1913-1943 the yields of the tax on corporate and municipal loans ranked fourth among the fourteen major taxes in effect in this period. Its average biennial receipts of $13.5 million represented 7.8 percent of the total tax receipts of the General Fund for the period.

In 1913-1935 the loans tax ranked third among the nine major taxes but, after the introduction of the emergency taxes in 1935 and 1936, it dropped to seventh place among the thirteen taxes in effect in 1935-1943. Although its average biennial receipts of $7.0 million in 1913-1917 increased 112 percent to $14.9 million in 1941-1943, the greatly increased totals of General Fund tax receipts after 1935 resulted in a decrease of the loans tax receipts from 12.3 percent of the 1913-1917 total to 4.0 percent of the 1941-1943 total of General Fund tax receipts. The range of its receipts varied from a low of $6.6 million in 1915-1917 to a high of $20.1 million in 1935-1937. Its average biennial receipts of $19.2 million in 1935-1941 were followed by a decrease of 22.2 percent to $14.9 million in 1941-1943. The receipts from the loans tax and the inheritance tax were the only two to show a decrease in 1941-1943 from the biennial average of the preceding period.

TABLE 4
LOANS TAX RECEIPTS
BY ECONOMIC PERIODS—1913-1943
(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1913-1917=100*
1913-1917	2	7,056	12.3	100
1917-1923	3	10,276[1]	11.6	146
1923-1931	3	13,494	9.3	191
1931-1935	3	15,210	10.7	216
1935-1941	8	19,185	6.1	272
1941-1943	10	14,925	4.0	212
1913-1943	4	13,508	7.8	191

[1] Comparative average derived from 5½ years of actual receipts.

In 1919 the action of General Assembly in broadening the base of the loans tax was largely responsible for the subsequent increase in the level of loans tax revenue. After 1935 an upward revision of the tax rate, as part of the emergency revenue program, resulted in an increase in the biennial average of tax receipts from $15.2 million in 1931-1935 to $19.2 million in 1935-1941. In 1941-1943 biennial receipts fell to $14.9 million and the legislative provision for the lapsing of the emergency rate at the end of 1943 is likely to cause a further decline in 1943-1945.

Mercantile License Tax Receipts—1913-1943

In 1913-1943 the mercantile license tax receipts ranked seventh among the receipts of the fourteen major taxes in this period. Average biennial receipts of $7.5 million from this tax represented 4.3 percent of the total tax receipts of the General Fund.

In 1913-1935 the mercantile license tax ranked fifth among the nine taxes of this period, but fell to last place among the thirteen taxes of 1935-1941. Although average biennial receipts of this tax increased 19.2 percent, from $6.7 million in 1913-1917 to $8.0 million in 1941-1943, its proportion of total General Fund tax receipts dropped from 11.7 percent in the first period to 2.0 percent in the last period. Biennial receipts of this tax showed the narrowest range of any of the major taxes and varied only from a high of $9.5 million in 1927-1929 to a low of $5.7 million in 1933-1935.

TABLE 5

MERCANTILE LICENSE TAX RECEIPTS BY ECONOMIC PERIODS—1913-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1913-1917=100*
1913-1917	3	6,689	11.7	100
1917-1923	4	7,763[1]	8.7	116
1923-1931	6	8,547	5.9	128
1931-1935	7	6,138	4.3	92
1935-1941	13	7,101	2.3	106
1941-1943	13	7,976	2.0	119
1913-1943	7	7,489	4.3	112

[1] Comparative average derived from 5½ years of actual receipts.

No important legislative change was made in this tax during the period, 1913-1943, and, despite its consistent yield, the importance of the tax steadily declined. It was, however, practically the only tax which measured roughly the economic factors at work in all the periods. For this reason the fluctuations in the index presented in Table 5 are of great interest. The index shows the most productive period of the tax to have been 1923-1931, when it reached 128 before declining to 92 in the period 1931-1935. By 1941-1943 the index again had increased to 119. The 1943 General Assembly terminated this tax by repeal, effective December 31, 1943.

Inheritance Tax Receipts—1913-1943

In 1913-1943 the tax on inheritance transfers and estates ranked second in receipts among the fourteen taxes of this period. Its average biennial receipts of $29.9 million represented 17.3 percent of the 1913-1943 total General Fund tax receipts.

In 1913-1935 the tax ranked second among the nine major taxes, but after 1935 declined to third place among the thirteen taxes in effect from 1935 to 1943. Although average biennial receipts of $4.9 million from the inheritance tax in 1913-1917 increased 445 percent to $26.7 million in 1941-1943, its proportion of total General Fund tax receipts decreased from 8.5 percent in 1913-1917 to 7.0 percent in 1941-1943. In 1931-1935, when this tax ranked first, it had contributed 29.0 percent of total General Fund tax receipts. The range of its actual biennial receipts was the most extreme of any of the taxes. In 1913-1915 this tax yielded a low of $4.0 million, while in 1929-1931 its receipts of $65.5 million marked the high point for the entire period, 1913-1943.

TABLE 6
INHERITANCE TAX RECEIPTS BY ECONOMIC PERIODS—1913-1943
(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1913-1917=100*
1913-1917	4	4,896	8.5	100
1917-1923	2	18,101[1]	20.3	370
1923-1931	2	38,995	27.0	796
1931-1935	1	41,065	29.0	839
1935-1941	3	38,884	12.3	794
1941-1943	6	26,663	7.0	545
1913-1943	2	29,898	17.3	611

[1] Comparative average derived from 5½ years of actual receipts.

A large part of the increase from inheritance taxes was directly attributable to the enactment of additional taxes in this field. The result of the direct inheritance tax legislation of 1917 and 1919 was apparent in an increase of its average biennial receipts from $4.9 million in 1913-1917 to $18.1 million in 1917-1923. This increase ranked the inheritance tax second only to the capital stock tax in 1917-1923 and increased its proportion of total General Fund tax receipts from 8.5 percent in 1913-1917 to 20.3 percent in 1917-1923.

The result of the legislation of estate taxes from 1925 to 1929 was apparent in average biennial receipts of $39.0 million from the inheritance tax in 1923-1931, 27.0 percent of the total General Fund tax receipts. In the first part of the depression period, 1931-1935, when many exceptionally large estates were in the process of settlement, its average biennial receipts further increased to $41.1 million, 29.0 percent of the total General Fund tax receipts. In this period the inheritance tax ranked first among the eight taxes then in effect. In the latter part of the depression period, 1935-1941, the inheritance tax receipts continued at the exceptionally high biennial average of $38.9 million, so that, despite the addition of the emergency taxes, the inheritance tax ranked third. Its proportion of the total, however, declined from 29.0 percent in 1931-1935 to 12.3 percent in 1935-1941.

In 1941-1943 this tax yielded only $26.7 million, 7.0 percent of the total General Fund tax receipts, and the tax dropped from third to sixth place among the thirteen major taxes of this period.

Shares Tax Receipts—1913-1943

In 1913-1943 receipts from the tax on shares of banks and trust companies ranked ninth among those of the fourteen major taxes. Its average biennial receipts of $7.2 million represented 4.2 percent of the 1913-1943 total tax receipts of the General Fund. In 1913-1935 the tax ranked seventh among the nine major taxes, but after the emergency revenue measures of 1935 and 1936 it fell to twelfth place among the thirteen major taxes of 1935-1943.

Although its average biennial receipts of $4.6 million in 1913-1917 increased 212 percent to $14.3 million in 1941-1943, the greatly increased totals of General Fund receipts after 1935 resulted in a decrease in the proportion of the shares tax from 8.0 percent of total

General Fund tax receipts in 1913-1917 to 3.8 percent in 1941-1943. Although actual biennial receipts from this tax ranged from a low of $3.2 million in 1923-1925 to a high of $14.7 million in 1937-1939, they were comparatively constant until the addition of emergency rates in 1936.

TABLE 7
SHARES TAX RECEIPTS BY ECONOMIC PERIODS—1913-1943
(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: 2 Year Average of 1913-1917=100*
1913-1917	5	4,592	8.0	100
1917-1923	7	4,554[1]	5.1	99
1923-1931	8	6,214	4.3	135
1931-1935	8	6,038	4.3	132
1935-1941	11	10,952	3.5	239
1941-1943	11	14,339	3.8	312
1913-1943	9	7,176	4.2	156

[1] Comparative average derived from 5½ years of actual receipts.

In 1925 the General Assembly limited the tax base of bank shares to the actual value of the shares in hands of the holder by eliminating an optional method of payment based on the par value of stock. This action was followed by an increase in the biennial average of the receipts of this tax from a level of about $4.5 million in 1913-1923 to more than $6.0 million in 1923-1935.

The Special Session of 1936 in its search for additional revenue increased the rates of the tax on the shares of banks and of trust companies. The effect of these measures was reflected in an increase of its average biennial receipts from $6.0 million in 1931-1933 to $11.0 million in 1935-1941. The shares tax receipts in 1941-1943 amounted to $14.3 million, but the reversion of the tax to the normal rates at the end of 1943 will reduce this tax to a relatively minor place in 1943-1945.

Gross Premiums Tax Receipts—1913-1943

In 1913-1943 the gross premiums tax receipts ranked fifth among the fourteen major taxes. Average biennial receipts of $10.2 million from this tax accounted for 5.9 percent of the total tax receipts of the General Fund. No emergency rate was imposed on this tax in

1935 or 1936 so that, in spite of a consistent growth in biennial yields, the tax ranked eleventh among the thirteen regular and emergency taxes of 1935-1943. Although its average biennial receipts increased fourfold from $4.0 million in 1913-1917 to $16.0 million in 1941-1943, the gross premiums tax receipts in proportion to the total General Fund tax receipts decreased from 7.0 percent to 4.2 percent, for the respective periods.

The gross premiums tax was the only tax to show an increase in its average biennial receipts in each of the periods from 1913 to 1943. Its actual biennial receipts were at a low of $3.9 million in 1913-1915, and, after consistent growth, reached a high of $16.0 million in 1941-1943.

TABLE 8
GROSS PREMIUMS TAX RECEIPTS BY ECONOMIC PERIODS—1913-1943
(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1913-1917=100*
1913-1917	6	4,028	7.0	100
1917-1923	5	7,264[1]	8.2	180
1923-1931	5	10,783	7.5	268
1931-1935	4	12,067	8.5	300
1935-1941	10	13,021	4.1	323
1941-1943	9	16,041	4.2	398
1913-1943	5	10,196	5.9	253

[1] Comparative average derived from 5½ years of actual receipts.

The consistent growth of the gross premiums tax will give greater prominence to its performance after the effect of the abandonment of the emergency rates on the other normal taxes of the general fund becomes apparent.

Gross Receipts Tax Revenues—1913-1943

In 1913-1943 receipts from the tax on gross receipts of public utilities ranked seventh among the fourteen major taxes. Its average biennial receipts of $9.0 million represent 5.2 percent of the total tax receipts of the General Fund. In 1913-1935 the tax ranked sixth among nine major taxes and after the emergency tax legislation of 1935 and 1936 it maintained its relative position as tenth among thirteen major taxes in 1935-1943.

The average biennial receipts from this tax increased from $3.9 million in 1913-1917 to $19.3 million in 1941-1943, or 390 percent. In relation to the total General Fund tax receipts, however, the gross receipts tax decreased from 6.9 percent to 5.1 percent for the same periods. Its actual biennial receipts ranged from a low of $3.5 million in 1913-1915 to a high of $19.2 million in 1941-1943.

TABLE 9

GROSS RECEIPTS TAX REVENUE BY ECONOMIC PERIODS—1913-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1913-1917=100*
1913-1917	7	3,933	6.9	100
1917-1923	6	6,376[1]	7.2	162
1923-1931	7	8,210	5.7	209
1931-1935	6	6,849	4.8	174
1935-1941	9	13,900	4.4	354
1941-1943	7	19,299	5.1	491
1913-1943	7	9,013	5.2	229

[1] Comparative average derived from 5½ years of actual receipts.

Until 1935 general economic conditions, rather than legislative changes, influenced the volume of revenues from the gross receipts tax. The upward trend of national income, prevailing from 1917 to 1929, was accompanied by an increase in the average biennial receipts of this tax from $6.4 million in 1917-1923 to $8.2 million in 1923-1931. The first part of the depression period brought about a decline to $6.8 million in 1931-1935 before the emergency tax rates resulted in average biennial receipts of $13.9 million from the tax in 1935-1941, followed in 1941-1943 by biennial receipts of $19.3 million. The marked increase in the 1941-1943 receipts again demonstrated the response of this tax to changes in the general economic level. The gross receipts tax after the return to its normal rate, effective January 1, 1945, will be of relatively minor revenue importance.

Anthracite Tax Receipts—1923-1931

The anthracite tax, enacted in 1921 and in effect until 1931, was of major revenue importance only in 1923-1931. In the 1921-1923 biennium large tax payments were withheld, pending a court decision on the constitutionality of the tax. In 1923-1931 receipts from the tax averaged $11.9 million per biennium and accounted for 8.2 percent of the total tax receipts of the General Fund. As a revenue producer, the tax ranked fourth among the eight major taxes in effect during this period. The high point in its biennial receipts, $19.4 million, occurred in 1927-1929 and was followed in the next biennium by a low of $7.5 million.[1] The low was the result of legislation by the 1929 General Assembly, which provided for the expiration of the tax in 1931 with a greatly reduced rate in effect for the last year of the tax.

Alcoholic Beverages Tax Receipts—1931-1943

The tax on malt and alcoholic beverages, although in force only after 1933, produced receipts in the period, 1931-1935, exceeding those of the established taxes on gross receipts, mercantile licenses, and shares. The emergency taxes of 1935 forced the alcoholic beverages tax from its earlier position of fifth among eight to eighth among thirteen taxes in 1935-1941. In 1941-1943, despite an increase in its average biennial receipts from $15.4 million to $17.3 million, the tax ranked ninth and decreased proportionately from 4.9 percent of the General Fund tax receipts in 1935-1941 to 4.5 percent in 1941-1943.

TABLE 10

ALCOHOLIC BEVERAGES TAX RECEIPTS BY ECONOMIC PERIODS—1931-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1935-1941=100*
1931-1935[2]	5	7,851	5.5	...
1935-1941	8	15,412	4.9	100
1941-1943	9	17,312	4.5	112

[2] Alcoholic beverages tax in effect only for 1933-1935 in this period.

Corporate Net Income Tax Receipts—1935-1943

The corporate net income tax was enacted as an emergency measure in 1935. In the period, 1935-1941, its average biennial tax receipts of $46.9 million represented 14.9 percent of the General Fund's tax receipts, and placed the tax second only to the capital stock tax among the thirteen major taxes.

[1] Total receipts from this tax in all periods have amounted to $52.6 million.

In 1941-1943 the corporate net income tax receipts of $90.6 million were nearly double the average biennial receipts of $46.9 million in 1935-1941. In this period its actual receipts increased from a low of $42.8 million in 1935-1937 to $53.3 million in 1939-1941, before a sharp rise of $37.3 million to $90.6 million in 1941-1943, an increase of 70.0 percent in a single biennium. The corporate net income tax receipts, as a percentage of the total General Fund tax receipts increased from 14.9 percent in 1935-1941 to 23.7 percent in 1941-1943.

The rates of the tax were 6 percent of net income in 1935, 10 percent in 1936, and 7 percent from 1937 through 1943. Despite a reduction of the rate to 4 percent in 1944 and 1945, the disallowance of federal taxes, as a deductible item from net income, a new feature enacted in 1943,[1] is likely to result in a sharp increase in the receipts from the corporate net income tax in the 1943-1945 biennium.

TABLE 11

CORPORATE NET INCOME TAX RECEIPTS BY ECONOMIC PERIODS—1935-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1935-1941=100*
1935-1941	2	46,907	14.9	100
1941-1943	1	90,621	23.7	193

Liquid Fuels Tax Receipts—1935-1943

In 1935 an emergency tax for General Fund purposes was levied on liquid fuels at the rate of one cent per gallon. Its average biennial receipts of $27.0 million in 1935-1941 placed the tax fourth among the thirteen major taxes and amounted to 8.6 percent of total tax receipts of the General Fund in this period. In 1941-1943 the tax moved up to third place, following the corporate net income tax and the capital stock tax, but preceding the inheritance tax, which dropped from third to fifth place. Its biennial receipts of $28.1 million amounted to 7.4 percent of total General Fund tax receipts, but were less than the high of $30.8 million in 1939-1941. Although the 1941-1943 receipts were larger than the low of $22.4 million in the first biennium of the tax

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[1] However, the emergency tax on corporate net income, enacted June 28, 1923 (P. L. 876), effective for only 2 years, contained this feature.

or the average biennial receipts of $27.0 million in 1935-1941, the decrease after 1939-1941 indicated the influence of the federal rationing program upon this source of revenue.

TABLE 12

LIQUID FUELS TAX RECEIPTS BY ECONOMIC PERIODS—1935-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1935-1941=100*
1935-1941	4	26,991	8.6	100
1941-1943	3	28,137	7.4	104

Cigarette Tax Receipts—1935-1943

The cigarette tax, enacted as an emergency measure in 1935, produced average biennial receipts of $22.1 million, representing 7.0 percent of the total General Fund tax revenues for 1935-1941. Its position was fifth among the thirteen major taxes. In 1941-1943 its biennial receipts amounted to 7.2 percent of the biennial General Fund tax revenues and the tax advanced to fourth place, ahead of all the normal taxes with the exception of the capital stock tax.

The receipts from the cigarette tax in the 1941-1943 biennium increased 24.4 percent to a high of $27.5 million. The low point of $19.5 million occurred in the first biennium, 1935-1937. Receipts from this tax in the current biennium, 1943-1945, will probably exceed those of the liquid fuels tax and rank the tax third among the eleven in effect.

TABLE 13

CIGARETTE TAX RECEIPTS BY ECONOMIC PERIODS—1935-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1935-1941=100*
1935-1941	5	22,117	7.0	100
1941-1943	4	27,516	7.2	124

Personal Property Tax Receipts—1935-1943

The General Assembly in 1935 enacted for state purposes an emergency tax on personal property. In 1935-1941 average biennial receipts of $21.7 million from this tax equalled 6.9 percent of the total

General Fund tax receipts, placing the personal property tax sixth out of thirteen.

In 1941-1943 biennial receipts from this tax moved counter to the general trend and decreased to $19.2 million and 5.0 percent of the total tax receipts of the General Fund. The personal property tax regressed to eighth place in this biennium. In the absence of legislative action in 1943 the tax expired by limitation at the end of the calendar year of 1943.

TABLE 14

PERSONAL PROPERTY TAX RECEIPTS BY ECONOMIC PERIODS—1935-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1935-1941=100*
1935-1941	6	21,664	6.9	100
1941-1943	8	19,151	5.0	88

Liquor Sales Tax Receipts—1936-1943

The emergency liquor sales tax was enacted by the Special Session of 1936. Although the tax was in force for only five of the six years in the period, 1935-1941, its receipts amounted to 4.0 percent of the period's total General Fund tax receipts and the tax outranked those on shares and mercantile licenses.

In 1941-1943 the liquor sales tax receipts increased from $15.7 million in the preceding biennium to $24.3 million or 6.4 percent of the 1941-1943 total General Fund tax receipts. As a result, the liquor sales tax rose from eleventh place in 1935-1941 to sixth place in 1941-1943.

TABLE 15

LIQUOR SALES TAX RECEIPTS BY ECONOMIC PERIODS—1935-1943

(In thousands of dollars)

Period	*Rank*	*Biennial Average*	*Percent of Total Receipts*	*Index: Biennial Average of 1935-1941=100*[2]
1935-1941[1]	11	12,721	4.0	100
1941-1943	6	24,293	6.4	159

[1] The tax was in force only for five years, from 1936 to 1941, in this period.

[2] Derived biennial average of $15,265 used for index base.

SUMMARY—1913-1943

The aggregate receipts from all taxes of the General Fund from 1913 to 1943 are presented in the following table which shows the two outstanding periods of increases in the revenue levels following 1923 and 1935. The latter increase followed the introduction of the emergency tax program in 1935 and divides the entire period, 1913-1943, into two distinct phases.

TABLE 16
TOTAL TAX RECEIPTS OF THE GENERAL FUND BY ECONOMIC PERIODS—1913-1943
(In thousands of dollars)

Period	*No. of Biennia*	*Receipts*	*Percent of Total Receipts*	*Biennial Average*	*Index: Biennial Average of 1913-1917 = 100*
1913-1917	2	114,585	4.5	57,293	100
1917-1923[1]	2¾	244,657	9.6	88,966	155
1923-1931	4	578,809	22.7	144,702	253
1931-1935	2	283,362	11.1	141,681	247
1935-1941	3	946,716	37.1	315,572	551
1941-1943	1	381,613	15.0	381,613	666
1913-1943	..	2,549,742	100.0	172,864	302

[1] During this period the beginning of the Commonwealth's fiscal year was changed from December 1 to June 1. Consequently, this period was reduced to 5½ years.

1913-1935

From 1913 to 1931 the tax revenues of the General Fund were enlarged by the cumulative effect of the legislative development of the normal tax structure. During this period economic conditions were generally favorable to the expansion of the tax bases of the General Fund revenue structure and to a high level of yields from General Fund taxes. From 1931 to 1935 the tax structure, so developed, demonstrated its stability by withstanding the severe economic decline in the early years of the depression. The average biennial tax receipts of the General Fund during the Post War I Reconstruction period, 1923-1931, were $144.7 million and declined only 2.1 percent to $141.7 million in 1931-1935.

During the period 1913 to 1935 only two new major taxes were added to the seven major taxes in effect at the beginning of the period. The development of inheritance and estate taxes, especially from 1917 to 1929, was the feature of the period, 1913-1935. The great increase in the receipts from this tax resulted in a reduction of the proportionate importance of the capital stock tax, which long had been the prime revenue tax of the General Fund. Its receipts declined from 40.8 percent of the total General Fund tax receipts in 1913-1917 to 26.2 percent in 1931-1935, while inheritance tax receipts increased from 8.5 percent in 1913-1917 to 29.0 percent of total General Fund tax receipts in 1931-1935. The rate of increase in the receipts from most of the other taxes of the General Fund was sufficient to maintain them at a fairly constant proportion of total General Fund tax receipts throughout the period.

1935-1943

After 1935 the biennial tax receipts of the General Fund were more than doubled within a single biennium, in 1935-1937, by the enactment of emergency taxes. The average biennial tax revenues of the General Fund increased from $141.7 million in 1931-1935 to $315.6 million in 1935-1941, an increase of 123 percent.

The following table shows a division of total General Fund tax revenues between two periods, 1913-1935 and 1935-1943, and so emphasizes the tremendous increase in the levels of General Fund tax revenue and the change in the relative revenue importance of the major taxes of the General Fund.

SUMMARY TABLE
GENERAL FUND TAX RECEIPTS—BY MAJOR TAXES 1913-1935 AND 1935-1943
(In thousands of dollars)

Major Taxes	*General Fund Tax Receipts* *1913-1935* (In thousands of dollars)	*1935-1943*	*Percentage Distribution* *1913-1935*	*1935-1943*
Capital Stock	357,427	250,293	29.3	18.8
Inheritance	297,678	143,314	24.4	10.8
Loans	126,767	72,479	10.4	5.5
Gross Premiums	95,296	55,102	7.8	4.1
Mercantile Licenses	81,189	29,279	6.6	2.2
Gross Receipts	71,939	61,000	5.9	4.6
Shares	58,639	47,195	4.8	3.6
Anthracite	47,645	.....	3.8	...
Alcoholic Beverages	15,703	63,549	1.3	4.8
Corporate Net Income	......	231,341	...	17.4
Liquid Fuels	......	109,110	...	8.2
Cigarettes	......	93,868	...	7.1
Personal Property	......	84,142	...	6.3
Liquor Sales	......	62,456	...	4.7
Total Major Taxes	1,152,283	1,303,128	94.3	98.1
All Other Taxes	69,130	25,201	5.7	1.9
Totals	1,221,413	1,328,329	100.0	100.0

It is to be noted that, while the total tax receipts for the two periods 1913-1935 and 1935-1943 are about equal, the duration of the first period was more than two and one-half times that of the latter.

The addition of five major emergency taxes after 1935 increased the number of the major taxes of the General Fund from eight to thirteen. This increase in number, coupled with a tremendous increase in the total amount of General Fund tax receipts, caused a proportionate decrease in the revenue importance of all General Fund taxes. This is particularly true of four of the seven normal taxes, which existed in 1913-1915. Three of these, the taxes on gross receipts, gross premiums, and shares have been reduced to relatively minor stature in the General Fund tax structure while the fourth, the mercantile license tax, was repealed, effective January 1, 1944.

The new emergency taxes produced larger yields than any of the normal taxes (at their normal rates) other than the taxes on capital stock and inheritances and estates. The relative importance of these two taxes, however was greatly decreased; for example, the capital stock tax receipts declined from 26.2 percent of the total tax receipts of the General Fund in 1931-1935 to 18.5 percent in 1941-1943. Inheritance tax receipts, which had increased to a high of 29.0 percent in 1931-1935, dropped to only 7.0 percent of the 1941-1943 total General Fund tax revenue.

Emergency taxes on selected sales and the corporate net income tax have been especially responsive to the abnormal rise in national income following 1940, despite war-time restrictions. Since 1935 the emergency taxes yielded extraordinary amounts of revenue and, by greatly decreasing the relative importance of the normal taxes, have demonstrated their vital importance in the tax structure of the General Fund.

PART III: REVENUES OF THE GENERAL FUND 1913-1943

REVENUES OF THE GENERAL FUND—1923-1943

The two decades from 1923 to 1943 have been selected for this analysis of General Fund revenues because they cover, in the narrow span of twenty years, the revenue history of the Commonwealth's General Fund from the period of World War I Reconstruction to the present period of World War II. The intervening years of economic expansion and decline provide strong contrasts in the development of the General Fund's revenues. As the nation again faces the fiscal problems rising out of post-war reconstruction, this review of the Commonwealth's General Fund revenues in the period, 1923-1943, will be of timely assistance in projecting the future course of Pennsylvania's fiscal affairs.

Basis of Compilation of Revenue Data[1]

The biennial revenues, reported for the period 1923-1943, have been made comparable for the purposes of this survey by adjusting the receipts of each biennium to the General Fund revenue structure of 1943-1945. This has been done by eliminating non-revenue receipts (chiefly monies, borrowed through bond issues and tax anticipation notes, and sums, transferred by action of the General Assembly, from other state funds) and by adding to or deducting from the General Fund's receipts, as reported by the Commonwealth, those items which are inconsistent with the 1943-1945 revenue structure. These adjustments have been made to overcome changes in General Fund revenues, caused by the transfer of functions or revenue sources among the General Fund and other funds of the Commonwealth. The major revenue receipts, eliminated

[1] See Appendix for supporting statistical data.

from the General Fund, were federal subsidies for highway construction and the proceeds from the gasoline and the liquid fuels taxes, which entered the General Fund for the support of the Department of Highways and, in the case of the tax receipts, for distribution to the counties.[1] The major items, added to the revenues of the General Fund, were those of departmental or minor operating funds, which have since been consolidated with the General Fund. As a result of these adjustments, the revenue of each biennium in the two decades is directly comparable with the revenue of any other biennium.

Classification of Revenues

The revenues of the General Fund have been classified as: (1) direct revenues (drawn from sources reserved to the General Fund), (2) transfers from other funds, and (3) monies placed in the General Fund, but earmarked for specific purposes. In the 1933-1943 decade these three sources were represented proportionately in the General Fund as follows: direct revenues, 88.4 percent; transfers from other funds, 0.1 percent; and receipts earmarked for specific purposes, 11.5 percent of the total revenue of the General Fund.

The tax sources of direct revenue were reveiwed in the early parts of this study. In addition to tax revenues, direct revenue consisted of receipts, derived from certain operations of the state government, such as licenses and fees, fines and penalties, institutional reimbursements, and sundry revenues, accruing from the operations of the departments. In 1935-1943 surplus monies, derived from operations of the State Liquor Stores, were appropriated to the General Fund.

The second distinct source of General Fund revenues, namely; transfers from other funds, is relatively unimportant and consists of balances, transferred from abolished funds, or transfers to the General Fund of surpluses from other state funds in accordance with legislative instructions. Such transfers of surpluses have been infrequent and generally were small in amount.

The General Fund receipts, earmarked by the General Assembly

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[1] After the establishment of the Motor License Fund and the Liquor Fuels Tax Fund, monies for highway purposes were deposited in these funds.

for specific purposes, have greatly increased in recent years. The dedication of such funds is contrary to the usual character of General Fund revenues which, in the absence of special legislative provisions, are applicable to any appropriation for governmental purposes. The General Fund receipts, earmarked for specific purposes include: State monies from the Motor License Fund, dedicated to the partial support of the Pennsylvania Motor Police and the Department of Commerce receipts from State Teachers Colleges, reserved for their exclusive use; and such federal funds as are deposited in or transferred to the General Fund. These federal grants are comprised chiefly of funds for old age assistance, aid to dependent children, and educational purposes. Federal grants for highways, health, unemployment benefits and administration, and emergency relief are not paid into the General Fund, but are set up and expended from special funds of the Commonwealth.

Growth of Revenues[1]

In the decade between June 1, 1933 and May 31, 1943 the revenues of the General Fund amounted to $1,927,974,851, which was more than double the comparative total of $859,348,854 for the decade 1923-1933. The latter total, in turn, was more than double the General Fund revenues of the preceding 9½ years from December 1, 1913 to May 31, 1923 which amounted to $387,751,591.[2]

The magnitude of the growth of General Fund revenues in the two decades between 1923 and 1943 is emphasized by a comparison of their average biennial receipts. In the first decade, 1923-1933, the average biennial revenue of the General Fund amounted to $171.9 million. In the second decade, the average biennial revenue amounted to $385.6 million, an increase of 124 percent. The effect of the revenue program initiated in 1935-1937—the beginning of a new era in General Fund revenues—is marked by average biennial revenue of $169.1 million for the six biennia from 1923 to 1935 and by $443.4 million for the four biennia from 1935 to 1943. The sharp increase in average biennial revenue between these two periods amounted to $274.3 million or 162 percent.

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[1] See Appendix for supporting statistical data.

[2] This total is not directly comparable with those for the decades 1923-1933 and 1933-1943. The General Fund revenues for 1913-1923 were secured from the reports of the Auditor General and cannot be adjusted for comparative purposes in the same manner as the data from the Commonwealth's budgets for the period 1923-1943.

There were few important changes in the General Fund revenue structure in the decade 1923-1933. The biennial revenues, in general correlation with economic trends, increased from $142.5 million in 1923-1925 to $201.5 million in 1929-1931 before receding to $180.2 million in 1931-1933. The increase in biennial revenues from 1923 to 1931 was caused chiefly by the growth of tax revenues from $120.5 million in 1923-1925 to $174.2 million in 1929-1931. The biennia, 1923-1925 and 1929-1931, marked the low and high points respectively, in revenues in the decade's five biennia. In 1931-1933 General Fund tax revenues dropped to $153.9 million, but were still above the biennial average of $146.5 million for 1923-1933.

The tax revenues included emergency tax receipts of $6.1 million in 1923-1925 from the emergency tax on corporate net income (known as the "Emergency Profits Tax of 1923") and $9.1 million in 1931-1933 from an emergency relief general sales tax of six months' duration, enacted in 1932.

With the exception of the estate taxes, enacted in the sessions of the General Assembly from 1925 to 1929 in order to complete the State's system of inheritance and estate taxation, the major additions to the tax receipts in this period were the anthracite tax, which produced $50.5 million, and the malt beverage tax of 1933, which produced less than $0.5 million, all applicable to the decade 1923-1933.

The revenue receipts, from sources other than taxes, remained fairly constant throughout the decade, although there was an increase of minor importance in the amount of sundry departmental revenue from $0.7 million in 1923-1925 to $3.2 million in 1931-1933. A transfer of $1.4 million to the General Fund from abolished funds occurred in 1927-1929.

Of the total revenues of $859.3 million in the period 1923-1933, $835.1 million or 97.2 percent were comprised of: $717.5 million or 83.5 percent from regular taxes; $90.2 million or 10.5 percent from departmental operations; and $27.4 million or 3.2 percent from receipts, earmarked for specific purposes, almost all of which were for the State Teachers Colleges. The remainder of $24.2 million or 2.8 percent of the total revenues constitute receipts from emergency tax revenues of $15.2 million, federal grants of $7 million, and transfers from other funds of $2 million.

GENERAL FUND REVENUES 1933-1943

Although the effects of the Post World War I Depression period extended from 1933 to 1940, total revenues of the General Fund in 1933-1943 were $1.9 billion or 124 percent greater than in the preceding decade. In the first biennium of the decade, 1933-1943, total revenues of the General Fund continued to decrease and dropped to $155.1 million in 1933-1935 from $180.2 million in the preceding biennium. The decrease in total revenues resulted from a decline in tax collections from $153.9 million in 1931-1933 to $129.4 million in 1933-1935.

In 1935 the Commonwealth faced deficits resulting from expenditures for unemployment relief and from rapid expansion of activities in the social welfare field. Consequently, emergency taxes were enacted in 1935 and 1936 on corporate net income, personal property, liquid fuels, cigarettes and liquor sales and emergency rates were superimposed upon the rates of taxes on corporate loans, gross receipts of public utilities, and the shares of banks and of trust companies. Additional revenues were also made available to the General Fund by the transfer of profits from the operation of the State Liquor Stores. Federal grants, available to the General Fund, were greatly increased after 1936 by the initiation of federal-state programs for old age assistance and aid to dependent children.

These new sources of revenue and gradually improving economic conditions after 1935 more than doubled General Fund revenues in 1933-1943 over 1923-1933. The larger amounts of increases were in tax revenues, $725.0 million; federal grants, $161.9 million; and liquor store profits, $131.0 million.

The rates of increase, as shown by the percentages of increase in 1933-1943 over 1923-1933, varied greatly for the several revenue sources. In total, General Fund revenue increased 124 percent. Tax revenue, in the aggregate, increased 99.0 percent, but revenues from regular taxes increased only 10.4 percent, while revenues from emergency taxes increased 4,271 percent. Federal grants to the General Fund increased 2,320 percent. New liquor store profits had no comparable base in 1923-1933. The above sources contributed to the total dollar increase of 1933-1943 over 1923-1933 in the following proportion; regular taxes, 6.9 percent of the total increase; emergency taxes, 60.9 percent; federal grants, 15.1 percent; and liquor store profits, 12.3 percent. In the aggregate, these sources accounted for 95.2 percent of the total amount of increase between the two decades.

The magnitude of the changes in the revenue structure after 1935 resulted in a major redistribution of the percentage of receipts, derived from the various sources. Despite the great increase in tax revenues, the percentage of total revenues, derived from regular and emergency taxes, decreased from 85.3 percent in 1923-1933 to 75.6 percent in 1933-1943. The proportion of revenue from normal (regular) taxes was reduced from 83.5 percent of total revenue in 1923-1933 to 41.0 percent in 1933-1943. Emergency tax revenues increased greatly from 1.8 percent of total General Fund revenues to 34.6 percent in the same periods. The one entirely new source of revenue, liquor store profits, represented 6.8 percent of 1933-1943 total revenues and exceeded the percentage of revenue from departmental operations, which decreased from 10.5 percent in 1923-1933 to 6.0 percent in 1933-1943. The share of total General Fund revenue, derived from direct revenues, decreased from 95.8 percent in the first decade to 88.4 percent in the second. The enormous increase in federal grants to the General Fund was reflected in an advance from 0.8 percent of the 1923-1933 total General Fund revenues to 8.8 percent in 1933-1943.

General Fund Revenues—By Biennia—1933-1943

The biennial revenues of the General Fund increased from the decade's low of $155.1 million in 1933-1935 to $360.1 million in 1935-1937. General Fund revenues continued to increase in each succeeding biennium and reached the high point of $536.5 million in 1941-1943. The doubling of revenues between the first and second biennia of the period resulted from emergency tax legislation, the appropriation of liquor store profits to the General Fund, and increased federal grants. Between 1933-1935 and 1935-1937 these sources alone provided $162.8 million or 79.4 percent of the total increase of $205.4 million. Emergency tax revenues increased from $0.7 million to $127.6 million; and federal grants increased from $1.6 million to $13.6 million. There were also increases in regular tax revenues and departmental revenues of $40.1 million and $2.9 million respectively.

In the biennia following 1935-1937 revenues in general, and particularly those from the emergency taxes, liquor store profits, and federal grants, continued to increase. In 1941-1943 General Fund revenues of $536.4 million exceeded by $176.4 million or 49.0 percent those of 1935-1937, which was the first biennium of the expanded revenue structure. Between these two periods emergency tax revenues increased $85.8 million or 67.3 percent; liquor store profits, $17.0 million or 70.8 percent; and federal grants, $57.7 million or 425 percent. Sundry departmental revenues increased by $4.3 million or 20.0 percent, but normal tax revenues decreased from $168.8 million in 1935-1937 to $168.2 million in 1941-1943.

From 1923 to 1933 the distribution of revenues by sources remained fairly constant, despite a moderate growth in the volume of revenues, but in 1933-1943 there was a major change in the distribution. There was a continuing decrease in the proportion of revenues from the long established sources of regular taxes and departmental operations and a great increase in the importance of the new or recently expanded sources.

The first biennium, 1933-1935, of the 1933-1943 decade, was fairly typical of all the preceding biennia since 1923-1925, although the proportion of tax revenues was slightly less and that of departmental revenues slightly more than their averages for 1923-1933. In that decade tax revenues averaged 85.3 percent and total direct revenues averaged 95.8 percent of the total General Fund revenues, compared with 83.5 percent and 95.5 percent respectively in 1933-1935.

From 1935 to 1943 the proportion of tax revenues to total General Fund revenues decreased from 82.3 percent in 1935-1937 to 71.2 percent in 1941-1943. However, proportionate increases were exhibited by liquor store profits, which advanced from 6.7 percent in 1935-1937 to 7.6 percent in 1941-1943, and in federal grants, which moved from 3.8 percent to 13.3 percent. The receipts including federal grants, earmarked for specific purposes, advanced from 5.0 percent in 1935-1937 to 16.3 percent in 1941-1943 and this increase resulted in a decrease in the proportion of total direct revenue to total General Fund revenue from 95.0 percent in 1935-1937 to 83.6 percent in 1941-1943.

This trend is of great importance because the condition, where increasing proportions of total revenues are reserved for special purposes, is adverse to the simplified structure, attained in 1927-1929 by the abolition of numerous small operating funds and consolidation of most of the departmental funds with the General Fund. Large amounts of earmarked or dedicated receipts, not only complicate the mechanical processes of the Commonwealth's financial operations, but work against financial flexibility in its general operations. Another result is commitment of the State to financing certain special purposes or activities on an inflexible base that may seriously obstruct meeting the revenue needs for other or general purposes in later periods.

MAJOR SOURCES OF GENERAL FUND REVENUE—1923-1943

Transfers From Other Funds

This item has been set out separately among the sources of General Fund revenues because of characteristics other than its revenue importance. As indicated previously, liquor store profits were appropriated by the General Assembly from the State Stores Fund and were, in effect, transferred to the General Fund. However, such appropriations have been classified as direct revenues, because the operations of the State Stores Fund have generally been considered an adjunct of the General Fund. Further, as will be developed in later paragraphs, certain monies, appropriated from the Motor License Fund, or transferred from depository funds for federal grants, have been classified according to their prime characteristic, as earmarked receipts of the General Fund, available only for specific purposes. The monies, designated as "transfers from other funds," differ fundamentally from the above items, being made up of the balances of abolished funds or the surpluses or earnings of other state funds. These monies passed to the General Fund without any restriction as to their use and were direct revenues of the General Fund.

In 1923-1933 transfers from other funds to the General Fund amounted to only $2.0 million or 0.2 percent of total General Fund revenues. Despite their negligible revenue importance, these transfers had a real significance, because they marked the abolition of many small operating funds and special departmental funds, which had formerly complicated the accounting records and reports of the general governmental operations of the Commonwealth. Furthermore, a consolidation of these funds with the General Fund brought under budgetary control some funds which formerly had enjoyed an independent status.

In 1933-1943 transfers from other state funds amounted to only $1.7 million or less than 0.1 percent of the General Fund revenues. Most of this amount ($1.2 million) was received in 1933-1935 from the State Manufacturing Fund and the State Insurance Fund. These receipts were not transfers of balances of abolished funds, but were more in the nature of forced contributions to the General Fund, which was then hardpressed in financing emergency relief.

State Liquor Store Profits

In 1933 the Commonwealth established a monopoly on all sales of liquors and wines within the state. A state Liquor Store System was established under the Pennsylvania Liquor Control Board, which had been set up by the General Assembly at the Special Session of 1933 to regulate all phases of manufacturing, distribution, and consumption of alcoholic beverages and alcohol within the Commonwealth.

The Act of November 29, 1933 (P. L. 16), as amended, provides that all filing fees, forfeitures, and penalties, collected under the provisions of the Act, and monies accruing from the sale of liquor and alcoholic beverages by the Pennsylvania Liquor Stores are to be placed in the State Stores Fund and are available for the purposes for which they are appropriated by law.

The amounts of revenue made available by appropriations to the General Fund from liquor store profits increased from $24.0 million in 1935-1937 to $32.0 million and $34.0 million, in the two succeeding biennia, and, finally, to $41.0 million, in 1941,1943, an increase of more than 70 percent within eight years.[1] The importance of this source of revenue to the General Fund is emphasized by the fact that in 1941-1943 liquor store profits comprised 7.6 percent of the total revenue of the General Fund. In comparison, all other direct revenues of the General Fund, other than taxes, constituted only 4.8 percent of total General Fund revenues.

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[1] In addition to the total of $131.0 million, appropriated from the State Stores Fund to the General Fund since 1935, the sum of $6.7 million was appropriated for pensions for the blind and emergency relief from 1933 to 1937.

Revenues From Departmental Operations

Revenues from departmental operations consist of the receipts from licenses and fees, fines and penalties, institutional reimbursements, and other sundry revenues incidental to the general operations of government. In 1933-1943 these biennial receipts varied from a low of $18.7 million in 1933-1935 to a high of $26.8 million in 1939-1941, but further increases appear unlikely in view of a decline to $25.9 million in 1941-1943. Prior to 1933-1943 revenues from departmental operations were the only important revenue source other than the taxes of the General Fund. In 1923-1933 revenues from this source amounted to $90.2 million or 10.5 percent of the total General Fund revenues of the decade. In 1933-1943, despite an increase of 28.3 percent in revenues from this source to $115.8 million, their proportion of total revenues dropped to 6.0 percent.

Licenses and fees averaged about $7.5 million per biennium from 1933 to 1943 and increased from $5.6 million in 1933-1935 to $9.2 million in 1941-1943. The major items of increase in recent biennia were the general and special assessment fees, enacted in 1937 and collected by the Public Utility Commission, and greatly increased amounts of vital statistics fees, collected by the Department of Health. Other departments, which contributed appreciable amounts of revenue from licenses and fees, were the Department of Agriculture, the Department of Banking, Insurance Department, Department of Labor and Industry, and the Department of Public Instruction, which collected most of the examination and registration fees for the various professional boards.

Fines and penalties averaged about $1 million per biennium in the period, 1933-1943. Motor law fines, paid to the Department of Revenue, comprised 88 percent of the total. Most of the balance was collected by the Department of Agriculture for violations of food and sanitation laws and by the Department of Labor and Industry for violations of various labor and safety laws.

Institutional reimbursements averaged $11.7 million per biennium in 1933-1943, 50 percent of the average biennial revenue of $23.2 million from sundry departmental operations. During the five biennia, 1933 to 1943, institutional reimbursements increased from $10.5 million in 1933-1935 to $12.1 million in 1941-43, although the high point of $12.8 million was in 1939-1941. As the term implies, institutional reimbursements consist of payments for the care and maintenance of patients and inmates in the various state institutions, such as mental hospitals, penal and correctional institutions, and other special facilities for the deaf, feeble minded, et cetera.

Sundry revenues averaged $3.1 million biennially in 1933-1943 and increased from $1.7 million in 1933-1935 to $3.8 million in 1941-1943. The high point came in 1939-1941 with biennial receipts of $4.9 million. These miscellaneous items showed a marked increase after 1936 because of receipts, arising out of the increased fiscal transactions of the Treasury Department. These receipts consisted chiefly of interest and premiums on the sales of tax anticipation notes. Other important items, entered as sundry revenues, are the rents, leases, and sales of state property and supplies by the Department of Forests and Waters and the Department of Property and Supplies, and estates escheated to the Department of Revenue.

Receipts Earmarked for Specific Purposes—State Sources

State monies, placed in the General Fund, but earmarked for specific purposes, consisted of appropriations from the Motor License Fund, receipts of the State Teachers Colleges, and miscellaneous monies, comprising donations to the state and restitutions and over-payments for public assistance. In 1923-1933 receipts of this category amounted to $27.4 million or 3.2 percent of the total General Fund revenue. The receipts of the State Teachers Colleges accounted for $26.9 million of this amount; and sundry gifts and donations to the State for $0.5 million.

In 1933-1943 receipts from state sources, earmarked for specific purposes, amounted to $52.9 million or 2.7 percent of the total General Fund revenue. The sum of $23.9 million of the $25.5 million increase over 1923-1933 was comprised of appropriations from the Motor License Fund for partial support of the Pennsylvania Motor Police and the Department of Commerce. The receipts of the State Teachers Colleges decreased in 1933-1943 to $21.7 million and averaged $4.3 million biennially, compared with $5.4 million in 1923-1933. These receipts must be credited to the maintenance accounts of the State Teachers Colleges and are not available for general appropriation. Restitutions and over-payments of public assistance funds aggregated

$6.5 million in 1933-1943 and showed a steady increase, as the public assistance programs expanded.[1] Contributions and donations, received by the State for various purposes, amounted to less than $1 million in this decade.

In 1937, by the Act of June 29 (P. L. 2436) the Pennsylvania State Police and the State Highway Patrol were consolidated in a single organization, the Pennsylvania Motor Police, which assumed the duties of the State Highway Patrol, formerly supported by the Motor License Fund. The Act of June 27, 1937 (P. L. 2412), re-enacting and amending the Act of May 1, 1929 (P. L. 1046), termed "An Act appropriating the monies in the Motor License Fund," added a new section, which provided for the appropriation of as much of the monies of the Motor License Fund "as shall be deemed by the Governor to be apportionable to the work of the Pennsylvania Motor Police in enforcing the law regulating the use of highways of this Commonwealth, and assisting the Department of Revenue in the collection of motor license fees, etc." It was further provided that "money shall be transferred, from time to time, out of the Motor License Fund to the General Fund and shall be credited to the current appropriation out of the General Fund to the Pennsylvania Motor Police." Under the provisions of this Act appropriations of $7.2 million in 1937-1939 and $8 million in each of the two succeeding biennia were made from the Motor License Fund to the General Fund for the Pennsylvania Motor Police.

The Department of Commerce was established in 1939 by the Commerce Law, Act of May 10, 1939 (P. L. 111) and by the Act of May 10, 1939 (P. L. 101), amending the Administrative Code of April 9, 1929 (P. L. 177). The Department of Commerce took over the Pennsylvania State Publicity Commission, whose duties were placed in a Bureau of Tourist and Recreational Publicity. The Appropriation Acts of 1939 (Act 40A) allocated $400,000 from the Motor License Fund to the General Fund for this purpose. In 1941-1943 monies in the amount of $300,000 were received by the General Fund from the Motor License Fund for the Department of Commerce.

Federal Grants

Federal grants, placed in the General Fund from 1923 to 1943, were only a part of the federal monies received by the Commonwealth

[1] These receipts include amounts to be returned to the federal government.

and its agencies. Monies, received by the General Fund, did not include federal grants for such major purposes as regular highway construction, National Industrial Recovery Highways, health programs, unemployment compensation and administration, and emergency relief. In addition to federal grants to the State, federal monies have been paid directly to the Pennsylvania State College, the General State Authority, the Pennsylvania Turnpike Commission, and the Delaware River Joint Commission. In addition, huge federal grants have been made directly to political subdivisions of the State through P.W.A. grants and loans, as well as large subsidies to individuals, such as A.A.A. payments to farmers.

Federal grants, placed in the General Fund from 1923 to 1933, amounted to only $7.0 million, compared with $168.8 million in 1933-1943. This huge increase of $161.9 million or 2,320 percent has been caused chiefly by the adoption of federal-state public assistance programs since 1936 and by grants for national defense training since 1939.

In the preceding period, 1923-1933, the sum of $5.4 million of the $7.0 million total in federal grants, received by the General Fund, was earmarked for vocational education and industrial rehabilitation and about $0.7 million for division between the Pennsylvania State College ($0.5 million) and the Pennsylvania Nautical School ($0.2 million). In the aggregate, 88.1 percent of the federal monies, received by the General Fund in 1923-1933, was for educational purposes. Two other grants of importance were $0.3 million for forestry conservation and protection and $0.4 million for a children's welfare program, which expired in the 1927-1929 biennium.

In the period from 1933 to 1943 the amount of federal grants, placed in the General Fund, increased in each biennium from $1.6 million in 1933-1935 to $71.2 million in 1941-1943. In the first biennium, 1933-1935, the total of $1.6 million was distributed as follows: vocational education and industrial rehabilitation, 70.6 percent; Pennsylvania State College and Pennsylvania Nautical School, 9.1 percent, making a total of 79.7 percent for educational purposes; unemployment services, 11.5 percent; and other, chiefly forestry grants, 8.8 percent.

In 1935-1937 the total of federal grants in the General Fund increased from $1.6 million to $13.6 million, largely by reason of the addition of grants of $11.4 million for public assistance programs covering old age assistance, aid to dependent children, aid to the blind, and a portion of the related administrative expenses. These programs were not in effect for the full biennium and in 1937-1939 the grants for these public assistance programs advanced to $31.1 million or to 90 percent of the total federal grants of $34.6 million in the General Fund. During 1937-1939 Pennsylvania re-established an independent state program for aid to the blind and, consequently, no longer received the federal aid for this purpose, which had amounted to $3.2 million during the State's participation in the federal program.

In 1939-1941 federal grants to the General Fund increased from $34.6 million in 1937-1939 to $47.8 million. This increase of $13.2 million resulted from additional grants of $8.8 million for the public assistance programs, raising grants for this purpose to $39.9 million; from new grants for national defense training, amounting to $3.6 million; and from slight increases in grants for education and uemployment services. In 1941-1943 the total of federal grants to the General Fund increased by $23.5 million to an all-time high of $71.2 million. National defense training grants were increased by $14.6 million, public assistance programs by $9.3 million to a new high of $49.3 million, and there were minor increases in educational grants.

A comparison of General Fund federal grants in 1933-1935 and in 1941-1943 follows:

	General Fund Federal Grants		*Percentage Distribution*		*Percentage Analysis of Increase*[1]
	1933-1935	*1941-1943*	*1933-1935*	*1941-1943*	
	(In thousands of dollars)				
Education					
Pennsylvania State College...	100	366	6.1	0.5	0.4
Pennsylvania Nautical School	50	60	3.0	0.1	[3]
Vocational Education	1,018	2,698	62.1	3.8	2.4
Industrial Rehabilitation	139	364	8.5	0.5	0.3
Totals	1,307	3,488	79.7	4.9	3.1
National Defense Training ...	....	18,238	....	25.6	26.2
Public Assistance					
Benefits	....	48,547	....	68.1	69.8
Administration	....	708	....	1.0	1.0
Totals	....	49,255	....	69.1	70.8
Unemployment Services	188	129	11.5	0.2	—0.1[2]
Other	145	117	8.8	0.2	[3]
Totals	1,640	71,227	100.0	100.0	100.0

[1] Total amount of dollar increase of 1941-1943 over 1933-1935 equals 100.
[2] Decrease.
[3] Less than 0.1 percent.

The great increase in the proportion of federal grants to General Fund revenues is emphasized by the change from 0.8 percent of total General Fund revenues in 1923-1933 to 8.8 percent in 1933-1943. These grants were second only to emergency taxes in the tremendous increase of General Fund revenues between these two periods and contributed $161.9 million or 15.1 percent of the total amount of increase. Until 1935 federal grants averaged less than 1 percent of the General Fund revenues. Since that time, under the stimuli of the public assistance programs and the national defense training program, their proportion of total General Fund revenues has been consistently enlarged from 3.8 percent in 1935-1937 to 13.3 percent in 1941-1943.

TAX REVENUES OF THE GENERAL FUND—1923-1943

From 1923 to 1943 General Fund tax receipts accounted for 78.6 percent of General Fund revenues and so constituted the foundation of the Commonwealth's general governmental operations. Since 1923 biennial tax revenues of the General Fund have increased constantly, with the exception of a recession period in 1931-1935 and a minor setback in 1939-1941. Beginning with tax revenues of $120.5 million in 1923-1925, the biennial totals increased to $174.2 million in 1929-1931 before the effects of the depression reversed the trend and by 1933-1935 reduced tax revenues to $129.4 million. The emergency tax legislation in 1935 and 1936 resulted in a new tax revenue level of $296.5 million in 1935-1937, and biennial tax revenues of the General Fund increased to $381.6 million in 1941-1943.

From 1923 to 1933 changes in the total General Fund revenues were closely correlated with the trends in tax revenues. The proportion of General Fund tax revenues in this period never fell below 84.0 percent nor rose above 86.4 percent of total revenue. In the first biennium of the second decade, when the effects of the depression were most acute, the proportion of tax revenue fell to only 83.5 percent of total General Fund revenue. From 1935 to 1943, although the amount of tax revenues nearly doubled, the proportion of tax revenues to total revenues steadily declined from 82.3 percent in 1935-1937 to a low of 71.2 percent in 1941-1943. This decline in the relative importance of tax revenues, despite the great growth in the dollar amount, was due chiefly to the tremendous increases in revenues from other sources, such as the appropriations of liquor store profits to the General Fund and increases in the receipts for specific purposes, including federal grants.

General Fund Tax Revenues—1923-1935

In the aggregate, General Fund tax revenues in the six biennia, 1923 to 1935, amounted to $862.2 million or an average of $143.7 million per biennium. This period of twelve years was about evenly divided between the upswing of the World War I Reconstruction period and the decline in the Post World War I Depression period. There was a general correlation of General Fund tax revenues with the economic trends and biennial tax revenues continued to increase from $120.5 million in 1923-1925 to a high of $174.2 million in 1929-1931, after which the period ended with decreasing tax revenues, which amounted to $129.4 million in 1933-1935.

During the period, 1923-1935, revenues from the taxes of the General Fund followed the prevailing trend of increase in the first half of the period and the declining trend in the latter half. Taxes on business[1] increased from $78.7 million in 1923-1925 to a high of $90.9 million in 1927-1929, before the reversal of the economic trend reduced receipts to a low of $58.1 million in 1933-1935. The change in trend in this case occurred in 1927-1929 rather than in 1929-1931, because of greatly reduced revenues from the anthracite tax, which was passing out of the General Fund tax structure by gradual repeal. The growth and decline of anthracite tax revenues greatly influenced the rate of increase and of decrease of the aggregate revenues from taxes on business in this period.

The revenues from taxes on the property of persons[2] increased from $15.8 million in 1923-1925 to $25.1 million in 1929-1931 and the period closed in 1933-1935 with biennial revenues from these taxes of $21.6 million.

The revenues from taxes on inheritances and estates showed the widest range of any class of taxes and increased from $24.3 million in 1923-1925 to $65.5 million in 1929-1931 before dropping to $32.2 million in 1933-1935. The extraordinary increase in revenues from the

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1 Public utilities, insurance companies, mercantile licenses, capital stock (including foreign franchise after 1935), corporate net income, anthracite, corporation bonus, and other.

2 Shares of banks and trust companies, corporate municipal loans, and, after 1935, personal property (state).

inheritance taxes greatly modified the adverse effects of the depression on the General Fund's total tax receipts.

Taxes on selected sales,[1] introduced in the 1931-1933 biennium, amounted to $9.6 million and increased in the following biennium of 1933-1935 to $15.9 million.

As a result of the different rates of increase and decrease in General Fund tax revenues, a great change took place in the distribution of tax revenues between 1923-1925 and 1933-1935, the biennium immediately preceding the emergency taxation of 1935-1936. The percentage distribution of General Fund tax revenues by classifications was as follows:

	Percentage Distribution	
	1923-1925	*1933-1935*
Taxes on:		
Business	65.3	44.9
Selected Sales	...	12.3
Property of Persons	13.1	16.7
Inheritance and Estate	20.2	24.9
Miscellaneous	1.4	1.2
Totals	100.0	100.0

As indicated above, the relative importance of the revenues from business taxes showed a marked decrease from about two-thirds of total General Fund tax revenues in 1923-1925 to less than one-half of the total in 1933-1935. This decline had been fairly constant throughout the period and, in large part, was caused by the increasing proportion of inheritance tax revenues to the total General Fund tax revenues. After 1931 the declining trend of business tax revenues was furthered by the addition of revenues from new taxes on selected sales. These taxes increased the number of major classifications of tax subjects from three to four and, consequently, made the proportionate distribution of tax revenue more diversified by decreasing the importance of the predominating taxes.

General Fund Tax Revenues—1935-1943

In 1935-1937 General Fund tax revenues were more than doubled in a period of depression by the enactment of emergency taxes and increases in rates of certain normal taxes. In the four biennia from 1935 to 1943 tax revenues amounted to $1,328 million or a biennial

[1] Alcoholic and malt beverages and the emergency relief (general) sales tax of 1932.

average of $332.1 million, compared with $143.7 million from 1923 to 1935. Tax revenues in 1935-1937 amounted to $296.5 million and were the lowest of the four biennia. Revenues from the emergency taxes and emergency rates, introduced in 1935-1937, amounted to $127.6 million in the first biennium and increased in each biennium thereafter, reaching a high of $213.4 million in 1941-1943. Revenues from regular taxes at normal rates, however, showed only a minor increase over the $168.8 million of 1935-1937 to $171.2 million in 1937-1939, before dropping to $154.8 million in 1939-1941. The 1941-1943 revenues from regular taxes at normal rates amounted to $168.2 million or about $0.6 million less than in 1935-1937.

The comparative distribution of the average biennial tax revenues of the General Fund in 1923-1935 and 1935-1943 showed a decrease in the proportion of business tax revenues from 53.9 percent to 47.7 percent of the total General Fund tax revenues. Inheritance tax revenues showed an even greater decrease in relative importance, declining from 27.6 percent of the total General Fund tax revenue in 1923-1935 to 10.8 percent in 1935-1943. The revenues from taxes on the property of persons, due chiefly to the addition of the personal property tax and emergency rates on the corporate loans tax and the shares tax, increased slightly from 14.1 percent to 15.3 percent of General Fund tax revenues. The major increase was in the proportion of tax revenue, derived from the selected sales taxes.[1] The yields from these taxes, introduced in 1933, increased from 3.0 percent for the period prior to 1935, to 25.5 percent of total General Fund tax revenues from 1935 to 1943.

Even within the period 1935-1943, new trends developed, as the proportion of total General Fund tax revenues, derived from business taxes, reversed its downward trend after 1937-1939. Business tax revenues, due largely to the great increase in yields from the corporate net income tax, progressed from 42.5 percent of total General Fund tax revenue in 1937-1939 to 45.9 percent in 1939-1941. In 1941-1943 they again constituted more than one-half of the total tax revenues of the General Fund for the first time since 1927-1929.

No pronounced trend developed in the proportion of total General Fund tax revenues, derived from the selected sales taxes after 1935.

[1] Chiefly malt and alcoholic beverages (1933), cigarettes and liquid fuels (1935), and liquor sales (1936).

The 1941-1943 proportion of 25.5 percent coincided with the average for the period, 1935-1943.

Revenues from the taxes on the property of persons and from taxes on inheritance and estates developed downward trends after increasing their proportions of total tax revenues of the General Fund between 1935 and 1939. Revenues from taxes on the property of persons reached a high of 17.5 percent of total General Fund taxes in 1937-1939, but subsequently declined to 12.7 percent in 1941-1943. The lapsing of the personal property tax and the discontinuance of emergency rates on the corporate loans tax and the tax on shares of banks, trust and title insurance companies, forecast a continued downward trend in proportionate yields from taxes on property, so long as general economic conditions encourage the expansion of revenues from taxes on business and selected sales.

Revenues from inheritance and estate taxes, after being reduced to 11.7 percent of total General Fund tax revenues in 1935-1937, increased to 14.6 percent in 1937-1939, but declined to 7.0 percent by 1941-1943, as a result of the major increases in revenues from taxes on business and selected sales and a concurrent decrease in inheritance tax revenues.

In general, it would appear that the trend of proportionate increase in the revenues from taxes on business and selected sales will continue. It is probable that 1943-1945 will see a further sharp decline in the proportionate share of total General Fund tax revenues, derived from taxes on the property of persons. The inheritance tax revenues, although erratic in behavior, are likely to continue to occupy a place of minor importance to which they have fallen since 1935, so long as emergency taxes on corporate net income and selected sales are retained in the General Fund tax structure.

SUMMARY

A review of the General Fund tax revenues of the two decades from 1923 to 1943 shows that there has been a constant increase in the total amount of tax revenues, although revenues from the inheritance and estate taxes appear to have reached their peak in 1931-1935 and revenues from taxes on the property of persons are now on the decline.

The varied rates of growth among the various taxes have resulted in several shifts in the relative importance of the tax classifications. In the period, 1923 to 1935, the increase in inheritance tax revenues was outstanding and resulted in greatly decreasing the proportion of total tax revenues derived from business taxes, which had predominated the first few biennia of the twenty-year period. Even the addition of revenues from a tax on anthracite from 1921 to 1931 did not reverse this downward trend in the proportion of business tax revenues to total General Fund tax revenues. After 1933 revenues from selected sales taxes became of major importance and the addition of several other selected sales taxes, as emergency measures in 1935 and 1936, resulted in a constant yield from these taxes of about 25 percent of total General Fund tax revenues from 1935 to 1943. The proportion of total tax revenues, derived from taxes on the property of persons, increased slightly after the addition of emergency taxes in 1935, but a decline had set in by 1941, even before the lapsing of the emergency personal property tax and the discontinuance of emergency tax rates in this class. The addition of the corporate net income tax to the classification of taxes on business and the amendments of the capital stock tax in 1935 served to reverse the downward trend in the proportion of total General Fund tax revenues, derived from business taxes, particularly after 1939, when more favorable economic conditions began to prevail. By the end of 1943 business tax revenues were reassuming the revenue importance which they had possessed prior to 1929.

The stimulating effect on general economic conditions of World War II is reflected very markedly in the increased General Fund revenues. The presence of surpluses in the Treasury of the Commonwealth should serve as an incentive for revision of the State's tax structure. Financially, the time is opportune for revision, if the productivity of particular types of taxes under the prevailing conditions is not allowed to obscure fundamental considerations of sound revenue planning. The present abnormal yields of the corporate net income tax and the selected sales taxes have not diminished the need for a more stable underlying structure of taxes, which will minimize the adverse effects of periods of economic decline and so permit the Commonwealth to stabilize its long range financial policies and program.

APPENDIX

INDEX OF STATISTICAL TABLES

TABLE NO. 1A

COMMONWEALTH OF PENNSYLVANIA
TOTAL REVENUES OF THE GENERAL FUND
1923-1933 AND 1933-1943
(In thousands of dollars)

	1923-1933	*1933-1943*	*Amount of Increase*	*Percent of Increase*
Revenues				
From Taxes				
Normal	717,492	791,735	74,243	10.4
Emergency	15,237	666,036	650,799	4,271.2
Totals from Taxes	732,729	1,457,771	725,042	99.0
From Liquor Store Profits	......	131,000	131,000	.....
From Departmental Operations				
Licenses and Fees	25,145	37,476	12,331	49.0
Fines and Penalties	4,944	4,645	— 299[5]	— 6.0[5]
Institutional Reimbursements	50,011	58,299	8,288	16.6
Sundry Departmental Revenue	10,121	15,348	5,227	51.6
Totals—Dept'l Operations	90,221	115,768	25,547	28.3
Total Direct Revenues	822,950	1,704,539	881,589	107.1
Transfer from Other Funds[1]	1,994	1,710	— 284[5]	— 14.2[5]
Totals	824,944	1,706,249	881,305	106.8
Receipts Earmarked for Specific Purposes[2]				
From State Sources				
Motor License Fund[3]	......	23,850	23,850	.....
All Other	27,429	29,144	1,615	5.9
From Federal Government[4]	6,976	168,832	161,856	2,320.1
Grand Totals	859,349	1,927,975	1,068,626	124.4

[1] Closing balances of abolished funds and transfers from surplus of other state funds.

[2] These receipts are characterized by their dedication to specific activities, designated by legislative act.

[3] Monies transferred for partial support of the Pennsylvania Motor Police and the Department of Commerce.

[4] Includes only federal funds deposited in, or transferred to, the General Fund. Excludes highway grants, NIR Highways, Social Security grants for health programs, unemployment contributions, benefits and administration, and federal emergency relief grants.

[5] Decrease.

TABLE NO. 1B

COMMONWEALTH OF PENNSYLVANIA
PERCENTAGE DISTRIBUTION OF GENERAL FUND REVENUES
1923-1933 AND 1933-1943

	Percent of 1923-1933 Total	*Percent of 1933-1943 Total*	*Analysis of Total Increase*[1]
Revenues			
From Taxes			
Normal	83.5	41.0	6.9
Emergency	1.8	34.6	60.9
Totals from Taxes	85.3	75.6	67.8
From Liquor Store Profits	....	6.8	12.3
From Departmental Operations			
Licenses and Fees	2.9	2.0	[2]
Fines and Penalties	0.6	0.2	[2]
Institutional Reimbursements	5.8	3.0	[2]
Sundry Departmental Revenue	1.2	0.8	[2]
Totals—Departmental Operations	10.5	6.0	2.4
Total Direct Revenue	95.8	88.4	82.5
Transfers from Other Funds	0.2	0.1	[3]
Totals	96.0	88.5	82.5
Receipts Earmarked for Specific Purposes			
From State Sources			
Motor License Fund	....	1.2	2.2
All Other	3.2	1.5	0.2
From Federal Government	0.8	8.8	15.1
Grand Totals	100.0	100.0	100.0

[1] Total amount of dollar increase (1933-1943 over 1923-1933)=100.

[2] Percentage for total only.

[3] Decrease of less than 0.1 percent.

TABLE NO. 2A

COMMONWEALTH OF PENNSYLVANIA
REVENUES OF THE GENERAL FUND
BY BIENNIA—1933-1943
(In thousands of dollars)

	1933-1935	*1935-1937*	*1937-1939*	*1939-1941*	*1941-1943*
Revenues					
From Taxes					
Normal	128,758	168,848	171,155	154,802	168,172
Emergency	684	127,614	156,449	167,848	213,441
Totals from Taxes	129,442	296,462	327,604	322,650	381,613
From Liquor Store Profits	......	24,000	32,000	34,000	41,000
From Departmental Operations					
Licenses and Fees	5,630	6,584	7,834	8,265	9,163
Fines and Penalties	816	1,088	980	887	874
Institutional Reimbursements	10,488	12,256	10,722	12,767	12,066
Sundry Departmental Revenue	1,727	1,657	3,297	4,870	3,797
Totals—Dept'l Operations	18,661	21,585	22,833	26,789	25,900
Total Direct Revenue	148,103	342,047	382,437	383,439	448,513
Transfer from Other Funds	1,195	1	......	......	514
Totals	149,298	342,048	382,437	383,439	449,027
Receipts Earmarked for Specific Purposes					
From State Sources					
Motor License Fund	......	......	7,150	8,400	8,300
All Other	4,134	4,466	5,478	7,067	7,899
From Federal Government	1,640	13,556	34,647	47,762	71,227
Grand Totals	155,072	360,070	429,712	446,668	536,453
Percent of Increase Over 1933-1935	......	132.2	177.1	188.0	245.9

TABLE NO. 2B

COMMONWEALTH OF PENNSYLVANIA PERCENTAGE DISTRIBUTION OF GENERAL FUND REVENUES BY BIENNIA—1933-1943

	1933-1935	*1935-1937*	*1937-1939*	*1939-1941*	*1941-1943*
Revenues					
From Taxes					
Normal	83.0	46.9	39.9	34.7	31.4
Emergency	0.5	35.4	36.4	37.5	39.8
Totals from Taxes	83.5	82.3	76.3	72.2	71.2
From Liquor Store Profits	....	6.7	7.4	7.6	7.6
From Departmental Operations					
Licenses and Fees	3.6	1.8	1.8	1.8	1.7
Fines and Penalties	0.5	0.3	0.2	0.2	0.2
Institutional Reimbursements	6.8	3.4	2.5	2.9	2.2
Sundry Departmental Revenue	1.1	0.5	0.8	1.1	0.7
Totals—Departmental Operations	12.0	6.0	5.3	6.0	4.8
Total Direct Revenue	95.5	95.0	89.0	85.8	83.6
Transfers from Other Funds	0.8	[1]	....	....	0.1
Totals	96.3	95.0	89.0	85.8	83.7
Receipts Earmarked for Specific Purposes					
From State Sources					
Motor License Fund	....	....	1.7	1.9	1.5
All Other	2.7	1.2	1.3	1.6	1.5
From Federal Government	1.0	3.8	8.0	10.7	13.3
Grand Totals	100.0	100.0	100.0	100.0	100.0

[1] Less than 0.1 percent.

TABLE NO. 3A

COMMONWEALTH OF PENNSYLVANIA
DISTRIBUTION OF GENERAL FUND REGULAR AND EMERGENCY TAX RECEIPTS
1923-1933 AND 1933-1943

(In thousands of dollars)

	1923-1933	1933-1943			Increase or Decrease 1933-1943 over 1923-1933		
	Total	*Regular*	*Emergency*	*Total*	*Regular*	*Emergency*	*Total*
Taxes on Business							
Public Utilities ...	40,355	33,026	34,158	67,184	— 7,329	+ 34,158	+ 26,829
Insurance Companies	55,584	66,783	......	66,783	+11,199	......	+ 11,199
Mercantile License.	40,760	34,982	......	34,982	— 5,778	......	— 5,778
Other	2,056	1,822	......	1,822	— 234	......	— 234
Capital Stock and Bonus	211,096	288,948	......	288,948	+77,852	......	+ 77,852
Corporate Net Income	......	......	231,341	231,341	.....	+231,341	+231,341
Emergency Profits —1923	6,115[1]	......	8	8	.....	— 6,107	— 6,107
Anthracite	50,496	21	......	21	—50,475	......	— 50,475
Totals	406,462[2]	425,582	265,507	691,089	+25,235	+259,392	+284,627
Taxes on Selected Sales							
Liquid Fuels	......	......	109,111	109,111	.....	+109,111	+109,111
Alcoholic Beverage	444	78,807	1,607	80,414	+78,363	+ 1,607	+ 79,970
Liquor Sales	......	......	62,456	62,456	.....	+ 62,456	+ 62,456
Cigarettes	......	......	93,868	93,868	.....	+ 93,868	+ 93,868
Emergency Sales (General)—1932	9,122[1]	......	845	845	.....	— 8,277	— 8,277
Amusements—1935	......	......	7,751	7,751	.....	+ 7,751	+ 7,751
Totals	9,566[3]	78,807	275,638	354,445	+78,363	+266,516	+344,879
Taxes on Property of Persons							
Personal Property .	......	......	84,142	84,142	.....	+ 84,142	+ 84,142
Loans—Corporate .	46,849	40,699	21,286	61,985	— 6,150	+ 21,286	+ 15,136
Loans—Municipal .	21,221	26,820	......	26,820	+ 5,599	......	+ 5,599
Shares—Banks, *Trust Co.'s*	31,658	33,952	18,518	52,470	+ 2,294	+ 18,518	+ 20,812
Totals	99,728	101,471	123,946	225,417	+ 1,743	+123,946	+125,689
Inheritance and Estate Taxes	205,913	175,508	......	175,508	—30,405	......	— 30,405
All Other Taxes ...	11,060	10,367	945	11,312	— 693	+ 945	+ 252
Grand Totals ..	732,729[4]	791,735	666,036	1,457,771	+74,243	+650,799	+725,042

[1] Emergency tax receipts.
[2] Includes 6,115 of emergency tax receipts.
[3] Includes 9,122 of emergency tax receipts.
[4] Includes 15,237 of emergency tax receipts.

TABLE NO. 3B

COMMONWEALTH OF PENNSYLVANIA
PERCENTAGE DISTRIBUTION OF GENERAL FUND REGULAR AND EMERGENCY TAX RECEIPTS
1923-1933 AND 1933-1943

	1923-1933	*1933-1943*			*Analysis of Total Increase 1933-1943 over 1923-1933 (Total amount of increase=100)*		
	Total	*Regular*	*Emergency*	*Total*	*Regular*	*Emergency*	*Total*
Taxes on Business							
Public Utilities	5.5	2.3	2.3	4.6	— 1.0	+ 4.7	+ 3.7
Insurance Companies	7.6	4.6	....	4.6	+ 1.5	....	+ 1.5
Mercantile License .	5.6	2.4	....	2.4	— 0.8	....	— 0.8
Other	0.3	0.1	....	0.1	....	....	....
Capital Stock and Bonus	28.8	19.8	....	19.8	+10.7	....	+10.7
Corporate Net Income	....	....	15.9	15.9	....	+31.9	+31.9
Emergency Profits—1923	0.8[1]	....	....	....	....	— 0.8	— 0.8
Anthracite	6.9	....	....	....	— 7.0	....	— 7.0
Totals	55.5[2]	29.2	18.2	47.4	+ 3.4	+35.8	+39.2
Taxes on Selected Sales							
Liquid Fuels	....	....	7.5	7.5	....	+15.1	+15.1
Alcoholic Beverages.	0.1	5.4	0.1	5.5	+10.8	+ 0.2	+11.0
Liquor Sales	....	....	4.3	4.3	....	+ 8.6	+ 8.6
Cigarettes	....	....	6.4	6.4	....	+12.9	+12.9
Emergency Sales (General)—1932	1.2[3]	....	0.1	0.1	....	— 1.1	— 1.1
Amusements—1935 .	....	....	0.5	0.5	....	+ 1.1	+ 1.1
Totals	1.3[3]	5.4	18.9	24.3	+10.8	+36.8	+47.6
Taxes on Property of Persons							
Personal Property ..	....	....	5.8	5.8	....	+11.6	+11.6
Loans—Corporate ..	6.4	2.9	1.4	4.3	— 0.8	+ 2.9	+ 2.1
Loans—Municipal .	2.9	1.8	....	1.8	+ 0.8	....	+ 0.8
Shares—Banks, Trust Co's.	4.3	2.3	1.3	3.6	+ 0.3	+ 2.6	+ 2.9
Totals	13.6	7.0	8.5	15.5	+ 0.3	+17.1	+17.4
Inheritance and Estate Taxes	28.1	12.0	....	12.0	— 4.2	....	— 4.2
All Other Taxes	1.5	0.7	0.1	0.8	— 0.1	+ 0.1	....
Grand Totals..	100.0[4]	54.3	45.7	100.0	10.2	89.8	100.0

[1] Emergency tax receipts.

[2] Includes 0.8 of emergency tax receipts.

[3] Includes 1.2 of emergency tax receipts.

[4] Includes 2.0 of emergency tax receipts.

TABLE NO. 4A

COMMONWEALTH OF PENNSYLVANIA
CLASSIFIED TAX RECEIPTS OF THE GENERAL FUND BY BIENNIA—1933-1943

(In thousands of dollars)

	1933-1935	*1935-1937*	*1937-1939*	*1939-1941*	*1941-1943*	*Percent of Increase 1941-1943 over 1933-1935*
Taxes on Business						
Public Utilities ...	6,184	10,911	14,731	16,059	19,299	+212.1
Insurance Companies	11,681	12,372	13,746	12,943	16,041	+ 37.3
Mercantile License.	5,703	6,598	7,040	7,665	7,976	+ 39.9
Other	296	471	522	322	211	— 28.7
Corporations in General						
Capital Stock—						
Domestic	31,499	53,053	41,937	43,031	49,436	+ 56.9
Foreign Franchise[1]	2,030	12,017	15,524	13,943	21,352	+951.8
Bonus	682	1,292	1,166	617	1,369	+100.7
Corporate Net Income	......	42,843	44,533	53,344	90,621	+ ....
Emergency Profits—1923	1	......	......	......	7	+ ....
Anthracite	14	5	1	......	1	....
Totals	58,090	139,562	139,200	147,924	206,313	+255.2
Taxes on Selected Sales						
Liquid Fuels	......	22,380	27,832	30,761	28,137	+ ....
Alcoholic Beverages	15,259	18,917	14,550	14,377	17,312	+ 13.5
Liquor Sales	......	7,290	15,148	15,725	24,293	....
Cigarettes	......	19,508	22,450	24,394	27,516	+ ....
Emergency Sales (General)—1932	682	126	24	9	4	— 99.4
Amusements—1935.	....	6,782	969	......	......	....
Totals	15,941	75,003	80,973	85,266	97,262	+510.1
Taxes on Property of Persons						
Personal Property .	......	18,313	24,015	22,663	19,151	+ ....
Loans—Corporate .	10,732	14,391	14,388	11,608	10,866	+ 1.2
Loans—Municipal .	5,593	6,349	4,223	6,596	4,059	— 27.4
Shares—Banks, Trust Co's.	5,275	5,439	14,692	12,725	14,339	+171.8
Totals	21,600	44,492	57,318	53,592	48,415	+124.1
Inheritance and Estate Taxes	32,194	34,730	47,953	33,968	26,663	— 17.2
All Other Taxes	1,617	2,675	2,160	1,900	2,960	+ 83.1
Grand Totals .	129,442	296,462	327,604	322,650	381,613	+194.8
Percentage of Increase over 1933-1935 ...		129.3	153.1	149.3	194.8	

[1] The foreign franchise tax succeeded the capital stock tax on foreign corporations in 1935-1937.

TABLE NO. 4B

COMMONWEALTH OF PENNSYLVANIA
PERCENTAGE DISTRIBUTION OF GENERAL FUND TAX RECEIPTS
1933-1943

	1933-1935	*1935-1937*	*1937-1939*	*1939-1941*	*1941-1943*
Taxes on Business					
Public Utilities	4.8	3.7	4.5	5.0	5.1
Insurance Companies	9.0	4.2	4.2	4.0	4.2
Mercantile License	4.4	2.2	2.1	2.4	2.1
Other	0.2	0.2	0.2	0.1	0.1
Corporations in General	26.4	22.4	17.9	17.9	18.9
Corporate Net Income	....	14.4	13.6	16.5	23.7
Emergency Profits—1923	[1]	....	....	....	....
Anthracite	[1]	....	....	....	....
Totals	44.8	47.1	42.5	45.9	54.1
Taxes on Selected Sales					
Liquid Fuels	....	7.6	8.5	9.5	7.4
Alcoholic Beverages	11.8	6.4	4.5	4.5	4.5
Liquor Sales	....	2.4	4.6	4.8	6.4
Cigarette Sales	....	6.6	6.8	7.6	7.2
Emergency Sales (General) —1932	0.5	....	....	....	....
Amusements—1935	....	2.3	0.3	....	....
Totals	12.3	25.3	24.7	26.4	25.5
Taxes on Property of Persons					
Personal Property	....	6.2	7.3	7.0	5.0
Loans—Corporate	8.3	4.9	4.4	3.6	2.8
Loans—Municipal	4.3	2.1	1.3	2.1	1.1
Shares—Banks, Trust Co's.	4.1	1.8	4.5	3.9	3.7
Totals	16.7	15.0	17.5	16.6	12.6
Inheritance and Estate Taxes	24.9	11.7	14.6	10.5	7.0
All Other Taxes	1.3	0.9	0.7	0.6	0.8
Grand Totals	100.0	100.0	100.0	100.0	100.0

[1] Less than 0.1 percent.

TABLE NO. 6A

COMMONWEALTH OF PENNSYLVANIA
CLASSIFIED TAX RECEIPTS OF THE GENERAL FUND
BY BIENNIA—1923-1933

(In thousands of dollars)

	1923-1925	*1925-1927*	*1927-1929*	*1929-1931*	*1931-1933*	*Five Biennia 1923-1933*
Taxes on Business						
Public Utilities	8,323	8,992	8,552	6.973	7,515	40,355
Insurance Companies	8,564	10,225	11,641	12,701	12,453	55,584
Mercantile License	7,944	8,640	9,459	8,145	6,572	40,760
Other	372	497	486	327	374	2,056
Corporations in General						
Capital Stock—Domestic	35,928	39,584	38,427	41,264	38,636	198,075
Capital Stock—Foreign .				2,299	1,937	
Bonus	3,464	3,361	3,005	2,249	942	13,021
Corporate Net Income	......	......	......	......	......	......
Emergency Profits—1923..	3,364	2,694	50	4	3	6,115
Anthracite	10,695	10,146	19,326	7,478	2,851	50,496
Totals	78,654	84,139	90,946	81,440	71,283	406,462
Taxes on Selected Sales						
Liquid Fuels	......	......	......	......	......	......
Alcoholic Beverages	......	......	......	......	444	444
Liquor Sales	......	......	......	......	......	......
Cigarettes	......	......	......	......	......	......
Emergency Sales (General) —1932	......	......	......	......	9,122	9,122
Amusements—1935	......	......	......	......	......	......
Totals	......	......	......	......	9,566	9,566
Taxes on Property of Persons						
Personal Property	......	......	......	......	......	......
Loans—Corporate	9,477	9,112	8,788	10,621	8,851	46,849
Loans—Municipal	3,190	3,684	4,203	4,901	5,243	21,221
Shares—Banks, Trust Co's.	3,164	4,608	7,503	9,581	6,802	31,658
Totals	15,831	17,404	20,494	25,103	20,896	99,728
Inheritance and Estate Taxes.	24,319	31,501	34,687	65,473	49,933	205,913
All Other Taxes	1,709	2,001	2,924	2,184	2,242	11,060
Grand Totals	120,513	135,045	149,051	174,200	153,920	732,729

TABLE NO. 6B

COMMONWEALTH OF PENNSYLVANIA
CLASSIFIED TAX RECEIPTS OF THE GENERAL FUND
BY BIENNIA—1933-1943

(In thousands of dollars)

	1933-1935	*1935-1937*	*1937-1939*	*1939-1941*	*1941-1943*	*Five Biennia 1933-1943*
Taxes on Business						
Public Utilities	6,184	10,911	14,731	16,059	19,299	67,184
Insurance Companies	11,681	12,372	13,746	12,943	16,041	66,783
Mercantile License	5,703	6,598	7,040	7,665	7,976	34,982
Other	296	471	522	322	211	1,822
Corporations in General						
Capital Stock—Domestic	31,499	53,053	41,937	43,031	49,436	218,956
Foreign Franchise [1]	2,030	12,017	15,524	13,943	21,352	64,866
Bonus	682	1,292	1,166	617	1,369	5,126
Corporate Net Income	......	42,843	44,533	53,344	90,621	231,341
Emergency Profits—1923	1	......	......	......	7	8
Anthracite	14	5	1	......	1	21
Totals	58,090	139,562	139,200	147,924	206,313	691,089
Taxes on Selected Sales						
Liquid Fuels	......	22,380	27,832	30,761	28,137	109,110
Alcoholic Beverages	15,259	18,917	14,550	14,377	17,312	80,415
Liquor Sales	......	7,290	15,148	15,725	24,293	62,456
Cigarettes	......	19,508	22,450	24,394	27,516	93,868
Emergency Sales (General)—1932	682	126	24	9	4	845
Amusements—1935	......	6,782	969	......	......	7,751
Totals	15,941	75,003	80,973	85,266	97,262	354,445
Taxes on Property of Persons						
Personal Property	......	18,313	24,015	22,663	19,151	84,142
Loans—Corporate	10,732	14,391	14,388	11,608	10,866	61,985
Loans—Municipal	5,593	6,349	4,223	6,596	4,059	26,820
Shares—Banks, Trust Co's.	5,275	5,439	14,692	12,725	14,339	52,470
Totals	21,600	44,492	57,318	53,592	48,415	225,417
Inheritance and Estate Taxes	32,194	34,730	47,953	33,968	26,663	175,508
All Other Taxes	1,617	2,675	2,160	1,900	2,960	11,312
Grand Totals	129,442	296,462	327,604	322,650	381,613	1,457,771

[1] The foreign franchise tax succeeded the capital stock tax on foreign corporations in 1935-1937.

TABLE NO. 7A

COMMONWEALTH OF PENNSYLVANIA RECONCILIATION OF GENERAL FUND RECEIPTS PER BUDGETS AND ADJUSTED GENERAL FUND REVENUES BY BIENNIA—1923-1933

(In thousands of dollars)

	1923-1925	*1925-1927*	*1927-1929*	*1929-1931*	*1931-1933*
Receipts Per Budget	141,419	144,788	169,932	201,536	190,250
Adjustments:					
Additions—Items not in Budget					
Institutional Reimbursement	9,445	7,685	10,080	......	......
State Teachers Colleges	5,220	5,731	5,250	......	......
Additions—Items in other Funds					
Motor Law Fines	467	749	1,023	1,075	694
Abolished Operating Funds	1,574	2,890	109	5	......
Forestry	50	77	80	75	84
Securities Bureau and Commission	229	186	227	275	......
Bureau of Employment					
Federal Allotment—Forest Protection	......	......	......	99	......
Federal Forest Nursery	......	......	......	5	......
Federal Plant Pest	......	......	......	......	......
Gasoline Tax	......[1]	......	728	......	......
Total Additions	16,985	17,318	17,497	1,534	778
Total—Receipts and Additions	158,404	162,106	187,429	203,070	191,028
Deductions					
Liquid Fuels Tax—Counties	......	......	8,363	32	......
Liquid Fuels Tax	11,792	1,806	136	1	......
Highway Construction and Maintenance Contributions	2,982	2,199	338	......	......
Federal Aid to Highways	924	1	......	......	......
Tax Anticipation Notes	......	......	......	......	......
Bond Proceeds	......	......	......	......	......
Inter Fund Borrowings	......	......	......	......	10,000
Delaware River Bridge Reimbursements	......	......	......	......	97
Delaware River Bridge Tolls	......	237	1,136	1,488	755
Refunded Cash Not Credited to Appropriations	246	136	......	......	......
Vocational Education Fund Interest	7	......	......	......	......
Federal Forest Nursery	......	......	......	......	2
Federal Allotment—Forest Protection	......	......	......	......	10
Milk Control	......	......	......	......	......
State Stores	......	......	......	......	......
Anatomical Board	......	......	......	......	......
Total Deductions	15,951	4,379	9,973	1,521	10,864
Adjusted Revenue Totals	142,453	157,727	177,456	201,549	180,164

[1] Less than one.

TABLE NO. 7B

COMMONWEALTH OF PENNSYLVANIA RECONCILIATION OF GENERAL FUND RECEIPTS PER BUDGETS AND ADJUSTED GENERAL FUND REVENUES BY BIENNIA—1933-1943

(In thousands of dollars)

	1933-1935	*1935-1937*	*1937-1939*	*1939-1941*	*1941-1943*
Receipts Per Budget	205,465	487,132	576,180	676,446	675,986
Adjustments:					
Additions—Items not in Budget					
Institutional Reimbursements	......	......	......	......	......
State Teachers Colleges	......	......	......	......	......
Additions—Items in Other Funds					
Motor Law Fines	684	955	49	......	......
Abolished Operating Funds	......	......	......	......	......
Forestry	99	213	256	335	467
Securities Bureau and Commission	......	......	......	......	......
Bureau of Employment	188	288	......	......	......
Federal Allotment—Forest Protection	......	......	......	......	......
Federal Forest Nursery	......	......	......	......	......
Federal Plant Pest	......	......	......	......	......
Gasoline Tax	......	......	......	......	......
Total Additions	971	1,456	305	335	467
Total—Receipts and Additions	206,436	488,588	576,485	676,781	676,453
Deductions					
Liquid Fuels Tax—Counties	......	......	......	......	......
Liquid Fuels Tax	......	......	......	......	......
Highway Construction and Maintenance Contributions	......	......	......	......	......
Federal Aid to Highways	......	......	......	......	......
Tax Anticipation Notes	......	95,000	120,000	155,000	135,000
Bond Proceeds	25,000	......	......	......	......
Inter Fund Borrowings	16,443	33,116	26,750	75,100	5,000
Delaware River Bridge Reimbursements	9,318	......	......	13	......
Delaware River Bridge Tolls	......	......	......	......	......
Refunded Cash Not Credited to Appropriations	......	......	......	......	......
Vocational Education Fund Interest	......	......	......	......	......
Federal Forest Nursery	......	......	......	......	......
Federal Allotment—Forest Protection	......	......	......	......	......
Milk Control	24	28	......	......	......
State Stores	572	374	23	......	......
Anatomical Board	7	......	......	......	......
Total Deductions	51,364	128,518	146,773	230,113	140,000
Adjusted Revenue Totals	155,072	360,070	429,712	446,668	536,453