Hartle	Lager	Martz	Paulson, J. A.	Thorkelson
Helgeson	Lee	Masek	Prestegard	Tighe
Herfindahl	Lieske	Merrill	Radde	Wahlstrand
Hilton	Lockhart	Moore	Roebke	Waldal
Hogan	Lockwood	Nelson	Rohne	Wambach
Horwitz	Long	Nissen	Schwartz	Wangensteen
Iverson	Lowe	Nolan	Severson	Wanvick
Jesten	Lux	Nonnemacher	Severtson	Weeks
Johnson, R. G.	MacKinnon	Nordin	Slen	White, F. W.
Julkowski	McIntosh	Nystrom	Sweitzer	Witt
Kempfer	McNulty	O'Rourke	Syreen	Zwach
Kettner	Madden	Paige	Terwilliger	
Kueffner	Mann	Paulsen, O. A.	Thielen	

Those who voted in the negative were:

Bellman	Cox	Eriksson, L.	Hove	White, J. J.
Bennett	Daly	Hagland	Kieffer	
Campbell,L.A.	Dixon	Havemeier	Nellermoe	
Coduti	Erickson, G.	Hayford	Ost	

So the bill was re-passed, as amended, and its title agreed to.

MOTIONS AND RESOLUTIONS—CONTINUED.

At 6:15 o'clock P. M. Mr. Dunn moved that the House do now recess until 8:00 o'clock P. M.

Which motion prevailed.

And the Speaker declared the House at recess until 8:00 o'clock P. M.

EVENING SESSION.

The House re-convened at 8:00 o'clock P. M., and was again called to order by the Speaker.

EXECUTIVE AND OFFICIAL COMMUNICATION.

STATE OF MINNESOTA,
EXECUTIVE DEPARTMENT.
St. Paul, April 24, 1935.

Hon. G. W. Johnson, Speaker of the House of Representatives:

Dear Sir:

I am returning to you without my approval H. F. No. 1564. I object to the bill on the principal ground that it is not based upon the means and ability of the persons taxed, to pay the taxes imposed. Those who can least afford to pay are taxed the most, and those who can most afford to pay, are taxed the least, or not taxed at all.

I.

An income tax is based upon means and ability to pay. A sales tax falls the heaviest upon those least able to pay. The increase in income tax rates in this bill will yield, in the opinion of its proponents, an additional $2,500,000. Calculated on the 1933 income reported, plus 6%, the yield will not exceed $2,-000,000. On the other hand, the various sales taxes proposed in the bill will yield, according to its proponents, some $16,000,000.

It must be admitted that 80% of the various sales taxes will be collected on the necessities of life. Therefore, those in the low income strata of society will pay at least $12,000,000, as compared to a payment of not to exceed $2,500,000 by those in the higher income stratas of society.

The bill even goes so far with reference to the sales taxes as to tax those who are now upon public relief. Public relief is now largely given in the form of money, rather than in the form of commodities. In the purchase of those commodities which are subject to tax, and which are needed by those on public relief, a sales tax will be imposed.

If this bill became a law, the state of Minnesota would be imposing an added burden upon people already impoverished by reason of the Depression—people who are on public relief, and people who are not.

It must be conceded that the average home-owning employee in the larger centers of population will pay out more in a sales tax than he will receive back in the form of a reduction in the tax paid upon his home.

II.

Through its sales tax features, this bill would actually increase the burden of the farmer, who would pay about 36% of the sales tax, which is 6% more than he now pays under the property tax.

Even assuming the correctness of the estimates of the proponents of this bill as to the yield from the sales tax, the average farmer will pay out more in a sales tax than he will get back in the form of a reduction of his property tax, through the medium of the receipts from the sales tax.

The bill also discriminates against the producer of agricultural products as compared with the producer of manufactured products. The manufacturer is not obliged to pay a sales tax upon those materials which he buys for the purpose of processing or manufacturing into a finished commodity. On the other hand, the farmer pays a tax upon feed, spray, fertilizer, and other incidentals which he necessarily uses in the production of agricultural products.

About 40% of the individual farms of Minnesota are operated by tenant farmers. They would pay sales taxes without getting any relief through the reduction of any other tax.

Tax experts in the State Tax Commission have estimated that the maximum yield from the entire omnibus bill would not exceed $20,000,000. For the purpose of computation for state purposes, there must be deducted from this the $2,000,000 to be obtained through the medium of the income tax, because the proceeds of this tax will be distributed to local communities. The remaining $18,000,000 may not be sufficient to replace the state levy for 1935. In computing the property tax savings by reason of the removal of the state levy, regard must be had for the fact that the repeal of the so-called 1-mill Dunn tax will injure rather than benefit rural counties, because the rural counties receive back from the state, out of the proceeds of the Dunn tax, more than such rural counties pay into the state treasury. Let us assume, for the purpose of computation, that the bill will eliminate 11 mills from the state levy—the 11 mills representing the existing rate, minus the 1-mill Dunn tax. Certainly no more than 4 mills, on an average, can be estimated as a local replacement by reason of the increase in the income tax. The average mill rate in Minnesota is 78 mills. A reduction of 15 mills would mean a 19% reduction. Applied to the average $130.00 tax on a 160-acre farm, the reduction in property tax would be $24.70. But, under the provisions of this bill, the average farmer would find himself paying out about $30.00 a year in a sales tax on machinery, twine, fuel, oil, and other things he requires to run his business, in addition to the sales tax he would pay on clothing and household supplies for his family.

It is true that by taking individual counties in southern Minnesota, a more favorable balance can be reached. It is equally true that by using individual counties in northern Minnesota, a much more unfavorable balance will be reached.

III.

This bill is unfair to the average independent merchant. In addition to the added book-keeping cost imposed on him, the independent merchant would find himself at an even greater disadvantage than he now is in competition with out of state mail-order houses. These mail-order houses ship their merchandise in interstate commerce, and hence such merchandise is not subject to the sales tax. The independent merchant would be obliged to sell his commodities in competition with the mail-order houses, with 3% added to his retail price. These disadvantages would more than offset any tax reduction he might obtain if he happened to be the owner of the building in which he carried on his business.

IV.

The bill provides for a tax of 1c on a package of 10 cigarettes or less, and 1c on every additional 10 cigarettes. The tax on a 15c package of 20 cigarettes thus amounts to 2c, or nearly 12%. On packages of 20, costing more than 15c, it amounts to a tax of 10%. Cigars and pipe tobaccos would also be taxed at the 10% rate.

Tobacco is now the highest taxed commodity in the United States. The cigarette industry in the 14 states now taxing this product has suffered a loss of nearly 50% in volume of business because of the tax. The tax opens up a very lucrative field for out of state mail-order business, and encourages state-line smuggling and bootleg activities. The legitimate merchant thus suffers.

V.

The theatre and amusement business also suffers from the imposition of the tax provided in this bill. Those who believe in a low standard of living for the masses contend that amusements come under the head of luxuries. I contend that they come under the head of necessities. Remove amusements from the poor, and their morale is destroyed, and their nervous systems impaired. In this day of intense nervous strain, relaxation, in the form of amusements, is almost as necessary as food.

VI.

While this bill as a whole is detrimental to the interests of the great majority of the people of the state, I concede that it will help certain tax-paying groups. It will help the mining industry in Minnesota. The last property state tax payment of the mining industry to the State of Minnesota amounted to more than $2,700,000. The increase in occupation and royalty taxes from 6% to 8% in the bill, will, on the basis of present amounts paid by reason of those taxes, increase the total on occupation and royalty taxes to the extent of $427,000. The net saving to the mining industry will be about $2,300,000. Under this bill, presumably the pennies paid out in the form of sales taxes by those who live in the mining company-owned shacks will contribute toward the saving of this very substantial sum to the mining industry.

VII.

The bill will save millions for the corporations which are now subject to the corporate excess tax, because the bill reduces the corporate excess rate to 5 mills, and applies only to certain public utilities. The Tax Commission has on its books some $200,000,000 as corporate excess, defined on the basis of the existing law, which if valued at 40%, and taxed at the going rate, would yield $6,240,000 per annum. One Minnesota public utility would pay $2,000,000 more per annum under the existing law, if and when this law is upheld by the Court, than it would pay under the rate proposed in this bill. The same utility will save, under the terms of this bill, about $165,000 per year in property taxes. While I recognize that there are discriminations in the existing law as applied to private corporations, and am willing that it shall be repealed as to such private corporations, I believe that a substantial corporate excess tax should be imposed upon public utilities. Under the corporate excess tax, the particular thing taxed, in the case of a public utility, is its monopoly right. That monopoly has not been created by the utility. It represents a gift from the people to the utility. It is as much a thing of value, in the case of a public utility, as all the other property of the utility, real and personal. Under the existing law, a tax rate upon monopoly, equivalent to about 40 mills, would result in Minnesota. A reduction of half that amount—to 20 mills—would represent a more than reasonable corporate excess tax upon public utilities.

I also concede that under this bill the saving to the public utility heretofore mentioned would be at least partly compensated for by the increased rates to its consumers, due to the sales tax upon the electricity furnished to them.

VIII.

While the increased income tax rates in this bill are high, as compared with the income tax rates of other states, they are not at all severe. The increase in income tax rates does not represent any more than the decrease in property tax rates in the loop districts of Minneapolis and St. Paul, where a great share of the wealth of this state is concentrated. In fact, under this bill wealth pays less, and poverty more, than under existing tax laws.

IX.

The bill aids the absentee owners of real estate in Minnesota. It not only reduces the taxes upon the real estate owned by them, but it fails to levy any tax by way of replacement. The foreign insurance corporation, owning thousands of acres of agricultural land in Minnesota, obtains a reduction of taxes, which reduction is replaced by the sales taxes paid by those who are tenants upon its lands.

X.

The bill fails to impose adequate inheritance taxes, and leaves open a tremendous loop-hole in their collection, through its failure to provide for a tax, in the higher brackets, upon insurance, which is left as an inheritance.

XI.

The bill fails to adequately tax intangible property, not only through a low rate on the corporate excess tax, but through a failure to increase the rates of the moneys and credits tax.

I join with you in your desire to relieve real estate of at least a part of its tax burden. I am unable, however, to concur in the method used in this bill to effect that purpose. Instead of shifting the burden from property onto those least able to pay, as this bill does, it is my earnest belief that the burden should be shifted to those best able to pay. A tax program accomplishing the shifting of the burden, upon the basis of means and ability to pay, has already been submitted to you. The opportunity for enacting this program into law is still open to you.

Permit me to thank you for the courtesies extended through the medium of the membership of the House and Senate tax conference committees, and to express my regrets that the majority of the Legislature and I are unable to agree upon a tax revision program.

Respectfully yours,

FLOYD B. OLSON,
Governor.

MESSAGE FROM THE SENATE.

Mr. Speaker:

I have the honor to announce the passage by the Senate of the following House File, herewith returned, as amended by the Senate, in which amendment the concurrence of the House is respectfully requested:

H. F. No. 1343, A bill for an act to amend Mason's Minnesota Statutes 1931, Supplement 1927 to 1931 Sections 2684-1, 2684-2