Federal Statute seems beyond the realm of possibility.

We are of the opinion, that if we now passed an act providing for compromise settlement and payment of national bank taxes and postponing the effective date of H. F. No. 1378 until January 1st, 1941, the State of Minnesota will lose a considerable amount of revenue during the biennium. As the Governor has well said in his message, the bill places the highest legal tax upon national banks that the ingenuity of man has been able to devise under the extreme restrictions of the Federal Act.

The tax provided for in H. F. No. 1378 must be our ultimate goal and we believe that it is to the best interests of all the people of this state that H. F. No. 1378, which places a six per cent excise tax on net income of national banks, should become a law at this time.

Roy E. Dunn,
Andrew Finstuen,
L. E. Brophrey.

Mr. Brophrey moved that H. F. No. 1378 be returned to the Governor. Which motion prevailed and it was so ordered.

Veto Message Disapproving H. F. 1378
April 22nd, 1939

I have decided not to give my approval to H. F. No. 1378, which is the so-called Bank Tax Bill. The bill would tax the net income of national and state banks at the rate of 6% in place of the ad valorem property tax on bank shares. According to the best information I am able to secure from our tax department this bill would reduce the amount of taxes paid by banks of the state from approximately $1,400,000.00 to $700,000.00 and would reduce the tax that has been paid, by many banks, large and small, by over 50%. This reduction would, to a small degree, be offset by making the dividends received from bank shares a part of the taxable income of the individuals holding those shares.

The problem of taxation of banks has for over ten years been a very difficult and perplexing one for the State of Minnesota and for other states of the union, by reason of the fact that the Federal Statutes Section 5219 provides that national banks shall not be taxed by a state at any rate greater than that at which competing capital is taxed. This led to the court decision that national banks could not be taxed on the ad valorem basis, and as a result over a long period of years efforts have been made, on the one hand to amend the Federal Statutes, and on the other hand to reach compromise gentlemen's agreements with both national and state banks, by legislation under which almost all banks in the state paid compromise settlements of their taxes varying from 60% to 75% on the ad valorem basis.

At the last special session of the Legislature there was enacted Chapter 65 of the Special Laws of 1937, under which the banks of the state, through agreement, paid at the rate of 22% of the true and full value of their shares. The banks have always contended, in accordance with the courts' decisions, that this tax was an illegal one and that it was necessary that there should be enacted legislation to legally tax them and to end the ad valorem compromise.

The action in this session of the Legislature to enact a legal tax by placing upon banks an excise tax in the same manner as domestic corporations at the rate of 6% of their net income is represented by H. F. No. 1378.

The solution to this old problem as represented by H. F. No. 1378 may well be, according to the best information I have been able to secure, the only solution that can be reached and it may well be the highest legal tax that can be placed on national banks in Minnesota, because of the Federal restrictions, but in view of the extreme importance of this matter and the very material reduction in taxes, at a time when the state so needs its revenue, as we sincerely endeavor to place the state on a sound financial basis, I have reached the conclusion that this measure should have more consideration by the people of the state and by our administration with full knowledge of the effect that it will have upon the taxes of banks than it has had.

The measure was not brought to my attention in any manner until the completed bill, passed by both houses, reached my desk for signature, three days before the end of the session. So far as I have been able to determine, the extent of the effect of this bill upon the taxes has not been called to the attention of the people as a whole.

Upon learning of the facts of the situation I endeavored on the last night of the session to have the effective date of this act postponed to January 1st, 1941, and to have a new compromise measure for the intervening two years enacted at a somewhat reduced rate to the compromise of two years ago in order that we might in the interim advise the people of the situation and also determine whether there was any other action that could be taken, so that if no other action appeared no new legislation would be necessary as the new bill would automatically go into effect in two years. This proposition was not adopted.

I recognize that the non-approval of this act gives rise to other problems with which we will cooperate in correcting.

Only one year's taxes will come due before the next Legislature meets and I therefore respectfully request and urge that the banks of the state, both state and
national, pay the first one-half of that year's tax on the old basis, which would be 50% compared to the 60% of the last two years and that the confirmation of this compromise and a compromise of the taxes that come due in 1941 be effected by the next Legislature or by a special session, if the necessity for such special session should arise.

In the interim we shall thoroughly study this problem, which, although it is an old one, is a new one for our administration, and a new one for the people of the state in so far as the particular solution represented in H. F. No. 1378 is concerned.

HAROLD E. STASSEN,
Governor.

Other Vetoes

In addition to the vetoes on which there were written communications, there were five other vetoes as follows:

S. F. 477, prohibiting the transportation of inflammable liquid on public highways in quantities of over 2,000 gallons in a single vehicle.

On his veto of this bill, the Governor said he would have signed it had it not been for the provision that, in the opinion of the Attorney General, made the law apply to all public highways of the State including side roads, city streets and alleys. The Governor promised that the State Railroad and Warehouse Commission would consider the question and draw up a regulation on gasoline truck loads in conformity with public safety demands of highways.

Veto dated April 22nd, 1939.

H. F. 328, granting railroads a license to sell cigarettes on trains. The Governor questioned the phraseology of the bill and said that the way it was drawn a railroad could secure a license for $25 to retail cigarettes on all of its cars.

Veto dated April 22nd, 1939.

S. F. 1371, relating to village elections in St. Louis County. Governor Stassen charged that this was a device to continue elective officers in certain St. Louis County municipalities a year and a half without a vote of the people. Under the bill the general election period for all villages over 3,000 population would be in December of the even-numbered years. Those candidates who, when the December, 1940, election would have been held, had terms expiring after January 1st, 1941, would have continued in office until December 31st, 1942, as the Governor read the bill.

Veto dated April 22nd, 1939.

S. F. 1232, prohibiting the private use of publicly owned, tax exempt cars. Praising the motive back of the bill, the Governor said the measure's language was so restrictive that it was made impractical. He declared the penalty for violation was a misdemeanor. The policy of the State, he emphasized, will be to discharge any State employees who shall use State cars on private business.

Veto dated April 22nd, 1939.

S. F. 10, abolishing the Executive Council. The Governor explained the veto was made after a conference with members of the State Executive Council, and principally for the reason that the bill would have abolished the State Calamity Fund Act. "Though this fund may have been abused in the past, in view of the governmental reorganization which we are making and because of the modest relief appropriation made by the Legislature, this Act (State Calamity Fund Act) may be the means of avoiding a Special Session."

Veto dated April 22nd, 1939.