

**REPORT OF THE HEARING
BEFORE THE COMMITTEE ON
EXPENDITURES OF THE GENERAL
COURT OF MASSACHUSETTS**

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Report of the Hearing Before the Committee on Expenditures of the General court of
Massachusetts by Various

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**REPORT OF THE HEARING
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EXPENDITURES OF THE GENERAL
COURT OF MASSACHUSETTS**

REPORT OF THE HEARING

BEFORE THE

COMMITTEE ON EXPENDITURES

OF THE

GENERAL COURT OF MASSACHUSETTS,

ON THE SUBJECT OF

INCREASING THE TAX ON SAVINGS BANKS,

CONTAINING THE ARGUMENT OF

HON. FRANCIS E. PARKER,

WITH ADDITIONS,

THE EVIDENCE OF

OFFICERS OF THE SAVINGS BANKS,

AND THE

REPORT OF THE LEGISLATIVE COMMITTEE.

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ARGUMENT.

MR CHAIRMAN, AND GENTLEMEN:

The subject referred to your committee is that part of the address of his Excellency, the Governor, which relates to Savings Banks. It is in these words:—

“The rate of taxation on deposits in these institutions is only about one half the average rate of the State. Owing to the great changes in our financial affairs, the drift of these institutions is to become ordinary money corporations, and it is questionable whether such a great relief from the public burdens is longer justifiable.”

The Governor has correctly stated the purpose of the inquiry, to wit: whether the one hundred and thirty-six millions of dollars, now on deposit in the Savings Banks, bear their just share of the public burdens. To put the same question in other words, do the one hundred and thirty-six millions of dollars, which are placed in these banks by nearly four hundred and eighty-nine thousand persons, pay as large a tax, as the same money, invested in the same way, would pay, if it were in the hands of the several depositors?

I have said that the form in which this question has been put by his Excellency is correct; and I may add that the form of the question is also material. It admits that the tax which the State lays upon the Savings Banks is a *property* tax. The policy of the State is to tax these numerous small sums of money, which for purposes of convenience are collected in banks, no more, and no less, than they would tax the same small sums of money, if the depositors invested them in the same way, separately, instead of investing them collectively by their agents, the banks.

This is manifestly just; and this has always been the policy of the State; for until the year 1862, the tax was laid, not on the banks, but on the individual depositors. In that year, in order to insure greater certainty in the collection of the tax, and thus to secure a greater revenue, the tax was laid directly upon the corporations. The depositor pays nothing; the bank pays the tax for him. This makes the State sure that no depositor escapes; and saves the state the trouble of making out many thousands of tax bills. By one hundred and thirty-nine tax bills (one for each Savings Bank), all sure to be promptly collected, the State gets in this year more than a million of dollars.

Now the Governor was well aware, as all the gentlemen of the committee are aware, that, though it is the policy and purpose of the State to tax these collections of savings as *property*, yet the legal ground by which the tax is supported is as a tax on the *franchise*.

In point of law, the State has no right to tax the money of each depositor which is in the bank, at any different rate from that which it taxes the money of the non-depositor, which is in his pocket, or is employed in his business. Therefore, though it really intends the tax to be a property tax, and measures it accordingly, it supports it, when the question is raised in a court of law, as a *franchise tax*; a tax exacted from the banks, as the price of their corporate existence. The State sells the banks their charters — their right and franchise to be banks — for their annual payment of a sum of money. This has been decided by the Supreme Court in the cases *Commonwealth v. The Peoples' Five Cents Savings Bank*, 5 Allen, 428; *Commonwealth v. Provident Institution for Savings*, 12 Allen, 312.

But, however useful this may be when the subject comes into court as a question of *law*, no one yet has thought it worth considering as a question of *legislation*. In the legislature, the tax is always treated as a *property tax*, and it is now submitted

to you, as such, by the Governor. And for all purposes of legislation, this, which is the fair ground, is the strong ground. If you are to lay a tax on the franchise, what is the franchise worth? The bank neither discounts, nor has a circulation, nor creates stock. It can only receive certain limited savings, and let them out again, in a certain manner, as the statute permits. For this very limited privilege, and for the privilege of having a corporate existence and a common seal, the State would hardly charge them a million of dollars a year, — the sum which they are now paying. It is much firmer ground for the State to stand on, as well as fairer ground for the banks to stand on, to treat this question, for all purposes of legislation, as the Governor treats it, as a property tax. As such I shall now consider it; and if any person of a legal and ingenious mind is troubled to reconcile these two theories, I will suggest to him the usual answer, which seems to be as good as the doubt which it meets, namely, — that in estimating the value of the franchise of any corporation, for the purpose of fixing the just tax, it is customary and fair to take the value of the stock, and place upon that the usual tax laid on other property; and as the savings banks have no stock, but only deposits of money, which are in part exempted from taxation, the State takes the amount of these deposits, ascertains the rate at which they would be taxed, if not in the banks, and lays that rate of tax upon them, — thus measuring the value of the franchise.

Having thus endeavored to settle the principle on which the inquiry is to be conducted, let us return to the Governor's question: Do the deposits in the savings banks bear their fair share of taxation? Are the sums deposited taxed as much in the banks, as they would be, if the property in which they are now invested by the banks, were taxed as the property of the individual depositors?

The average rate at which property *subject to taxation* is assessed in the several cities and towns in this State, as ascertained

by the tax commissioner, for the past year, is $1\frac{544}{1000}$ per centum, or \$15.44 on a thousand dollars. *This is the rate on property subject to taxation;* but some kinds of property, and the property of certain classes of persons, are exempt, and not taxable at all. The present statute rate of taxing the deposits in savings banks is three-quarters of one per cent, or \$7.50 on a thousand dollars, which is laid in two equal assessments upon the average amount of deposits for six months next preceding the first day of May and the first day of November. This tax does not touch any surplus, if such exists, nor deduct any loss, if loss has been made.

The next question, then, is: Do the Savings Banks hold property exempted from taxation sufficient to make up the difference between these two rates of \$7.50 and \$15.44?

There are four principal classes of property exempt from taxation.

1. The bonds and securities of the United States.
2. "The property, to the amount of \$500, of a widow or unmarried female, and of any female minor, whose father is deceased, if her whole estate, real and personal, not otherwise exempted from taxation, does not exceed in value the sum of \$1,000." Gen. Stats. c. 11, sec. 5.
3. "The polls and any portion of the estates of persons who, by reason of age, infirmity and poverty, are, in the judgment of the assessors, unable to contribute fully towards the public charges." Gen. Stats. c. 11, sec. 5.
4. "The personal property of literary, benevolent, charitable and scientific institutions incorporated within this Commonwealth," and "the real and personal estate of incorporated agricultural societies." Gen. Stats. c. 11, sec. 5.

Of the first of these exempted classes, that is, United States bonds, the Savings Banks hold, according to the Commissioner's last report (p. 136), \$23,170,799, or a little more than 17 per cent of their entire deposits. These being exempt, should be de-

ducted from the taxable property of the bank, which being done, raises the rate of the tax on the 83 per cent remaining to above $\frac{90\frac{1}{10}}{100}$ of one per cent. The banks also hold \$1,392,513 in real estate. On this they are taxed twice: first, the usual rate by the several cities or towns; and second, the $\frac{7\frac{1}{2}}{100}$ of one per cent by the State, as this real estate is an investment of the deposits. This amount is a little more than one per cent of the entire deposits; which raises the rate again to about $\frac{92}{100}$ of one per cent. To this is to be added the amount for which the depositors would be exempted, under the statute referred to, as the property of widows, unmarried females, female minors, of persons unable to contribute fully to the public charges, and of the institutions and societies before named. How large this amount is, it is impossible to prove; but it may be fairly taken to bring the rate quite up to the average rate of \$15.44 on the \$1,000, and, we think, very much beyond it.

Admitting, for the purpose of the present argument, that many persons of considerable property make deposits in the Savings Banks, there can be no doubt at all that the great proportion — the great majority — of the non-taxable classes make their whole investments in these banks. They are the treasury of this whole class. I make this statement in general terms, because no one will doubt it, and because it is sufficient for my present purpose. The particular instances of such deposits will be given by the officers of several banks in their statements which will follow. The only way in which we can get at these facts, which no published return will show, is from the personal knowledge of the officers of the banks; and as a single instance of the facts within the knowledge of such officers, allow me to repeat the statement of Mr. C. S. Adams, treasurer of the Framingham Savings Bank. He says of his bank, "It is located in a country town, with a sparse population, and with but few operatives. I presume that I know ninety out of every hundred of our depositors. I know the circumstances of