



An analysis of the causes of tax delinquency in Montana
by Norman A Smith

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Montana State University
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Abstract:

The results of this study have indicated that there are two possible major lines of attack upon the present tax problem. The first attack consists essentially of the principle and policies basic to the rural rehabilitation program, The second embodies provisions for a readjustment of the tax burden itself.

The former attack demands a land-use re-allocation which will bring agricultural practices into strict adjustment with the natural factor determining Soil productivity. This policy will eliminate the incorrect usage of land, notably the cultivation of areas which are definitely limited in adaptation to grafting practices.

In the second place, this program requires a re-division of land into farm units of such size as to provide every operator with an economical and efficient unit. The studies previously cited have proven that there is a very definite minimum limit to the size of farm, under various cultural systems, which will support a family at a desirable standard of living under average conditions. The Federal land Repurchase program has been designed and put into operation to remove from private ownership lands of marginal nature which are incapable of economical cal operation under private enterprise even with the utilisation of efficient technical practices. This program has been formulated to collect less productive land into parcels of such size, under government control, as to be economically practicable under range management practice. This will require many changes over extensive areas of the state.

A third aim of this phase of the program will he a rearrangement of public service facilities in many regions. This will modify service facilities in accord with present and future requirements. Schools will he located with regard to density of population, transportation facilities, and attainment of high educational standards. County units and other governmental organisations will he modified to harmonize with present standards in the realm of transportation and commnunication. Similarly, highways will he constructed in accord with modern requirements by the governmental agencies best qualified to handle this type of thing.

The latter line of attack provides for a readjustment of the tax burden. For the past several years all evidence has indicated that general property as a base for taxation has proven itself inadequate, The prime requirement of a tax system is that it be based upon ability to pay. The assumption that value of general property is indicative of ability to pay in extractive industries has been proven fallacious. An acreage of first grade farming land may be allowed to remain idle so that it has no ability within itself to pay tax Costs, yet its potential value is so great as though it were efficiently cultivated. A similar acreage is farmed efficiently with the result that income exceeds costs of production. other than taxation, and consequently the operator is able to pay this cost. Ihe fact that a man has as income is evident of his ability to meet tax payments# therefore a fax upon income is more valid and just % fhe most effective and easily administered tax system of this type would be a fax upon gross production* Such & system ^ as compared to a net production fax# would place a premiotim upon efficiency for all Siae of enterprises * This would facilitate making the suggested readjustments in regard to technical practices* !Po place a tax upon the net Income of an. extractive industrv would be distinctly

unfavorable to the efficient manager* For example* one farmer may produce Wheat at a cost of 40 cents per bushel and a less efficient farmer produces it at a cost of 7*3 cents* With a farm price of 80 cents per bushel the former would have a net income of 40 cents and the latter a net income of 5 cents per bushel * With a tax on net income the efficient operator would pay eight times the tax paid by the less efficient man» fThis is certainly a penalty for ability as evidenced by efficiency* If these two men paid taxes on the basis of their gross production? the more efficient man would receive just return on his superior ability. This system would, over a period of several years, result in the elimination of inefficient operators, and practices. Such a result is certainly to be desired. In addition to the matter of justice towards operators? this system would encourage conservation of natural resources? especially the timber? mineral and petroleum resources* It would even promote conservation of soil fertility by making it economically possible for an operator to build the fertility of his land* He would be enabled to do this because he would have no tax burden when his land was out of production for the purpose of soil—building* This factor is more effective in the case of lumbering and mining because of the greater degree of irreplaceability of these resources* If it is to be realized, of course, that such a taxation system would necessitate the establishment of large reserves to assure stability and certainty of revenues. This, however, would not be the difficult task it is thought to be, if sound financial and political policies were adhered to, Along with this gross production tax for extractive industries it would be advisable to maintain the income, inheritance, and general property taxes for other industries and businesses* . - x The necessity of a modification of the tax "base has been evident for' X V\ V quite a while, and is only emphasised, by the present aggravated delinquency : | : M Situation. The main difficulties relative to changing the basis of taxation are legislative obstacles and public opinion-. It will require much time and effort to educate the citizenry to the principles involved in changing the tax system* Action along the lines considered is imperative to the sound and permanent solution of the present tax situation in Montana

AN ANALYSIS OF THE CAUSES OF TAX DELINQUENCY

IN MONTANA

by

NORMAN A. SMITH

A THESIS

Submitted to the Graduate Committee in partial fulfillment of the requirements for the Degree of Master of Science in Agricultural Economics at Montana State College

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AN ANALYSIS OF THE CAUSES OF TAX DELINQUENCY IN MONTANA

Chapter I
The Tax Problem in Montana

Montana entered statehood in 1889. Practically speaking, her agriculture has originated and developed entirely within the period of time which has transpired since that time. At that date, a semi-nomadic grazing practice was generally the type of agriculture throughout the region. Agricultural practices have changed radically in the past forty-six years. We now have a supposedly permanent type of agriculture which typically combines livestock raising with the growing of small grains and a few specialized crops. Because of this continual evolution of the agriculture of the state it has been impossible to look back and compare accurately with any previous period of time. The factors influencing agriculture have been many and varied. The unstable and temporary nature of these factors has made it impossible to discover and state definitely the actual effect of any one factor.

There has been one major weakness in the progress of our civilization during the past century. This has been the failure of political, economic, and social development to remain abreast phases of our social structure. As a consequence we now have an unbalanced social organization. In analogy, we have a twelve-cylinder engine in a Model-T Ford body and chassis on a rough country road. Our technical development has carried us forward at a rate far too rapid for our economic, political, and social organization. The result is seen in the many maladjustments which are evident in our society today.

This unbalanced progress has had tragic and far-reaching influences upon the agricultural industry of our state and nation. Technical improvements have enabled us to exploit the natural fertility of vast acres of land. This rapid exploitation has necessitated equally rapid adjustments in all phases of economic and governmental organization. This is the crux of the entire situation. We have failed to effect these readjustments. We have clung tenaciously to outworn, nineteenth century traditions of local government, laissez-faire policies, and individual freedom. Not only governmental agencies, but also educational and penal institutions have stumbled blindly on. At the present moment the maladjustments have become so acute that the importance of the problem is unquestioned in the mind of any alert, thinking person. With this realization has come a willingness to attempt the remedy of the present scheme of social organization. This will to strive is the most encouraging factor in the entire situation and is indicative of a thinking citizenry. The large number of studies being made on the tax problem is evidence of this attempt to bring our social structure into better adjustment with our technical productive structure. This phase is of definite interest to those who are concerned not only with the prosperity of agriculture, but also with the general welfare of the nation.

The tax problem is essentially an agricultural problem in Montana. Data show that in eleven of Montana's fifty-six counties, more than fifty percent of the privately-owned land was tax delinquent in 1933. There was an equal number of counties in which more than fifty percent of the acreage of agricultural land was delinquent in tax payments. There were only fourteen counties or but twenty-three percent of the total fifty-six which had less than thirty percent tax delinquency of privately-owned land.

No county had less than twelve percent of tax delinquency on privately-owned land. In the forty-six counties for which records of the land subject to tax deed are available, there were 28,415 farm properties covering 7,934,780 acres within such a category. This acreage constitutes 10.8 percent of the total acreage and twenty percent of the total privately-owned land (total acreage less Federal, State, and county lands) of those counties. There are approximately 93,000,000 acres of land in Montana. In 1933, 21,704,724 acres or 40.24 percent of the state's agricultural land was delinquent in the payment of taxes. There were some counties within the state where the extent of delinquency was so great that as much as 75 percent of the agricultural land was delinquent. There were on July 1, 1933, 69,673 farm properties (owned by 47,682 individuals and assessed at \$179,475,803) in the state which were delinquent in the payment of taxes. These few data cited give an impression of the vital importance of the tax problem in Montana.

The data in the previous paragraph justify the interest which has been created in the study of the tax problem in this and many other states. This increased interest has been indicated by the large number of tax problem studies which have been made or are in the process of completion. A number of tax studies have been made in Montana with the use of labor provided under the Civil Works, Emergency Relief, and Works Progress Administrations. These studies have been directed by the Department of Agricultural Economics of Montana State College. The objects of these studies have been, in part, to determine the average duration of delinquency, the amount and rate of delinquency, the relationship between grade of soil and delinquency, the relationship between type of ownership and tax delinquency, and the influence on delinquency of other important causal factors. These studies are laying a

foundation of facts upon which a sound taxation system may be based.

Chapter II

Causes of the Present Tax Situation in Montana

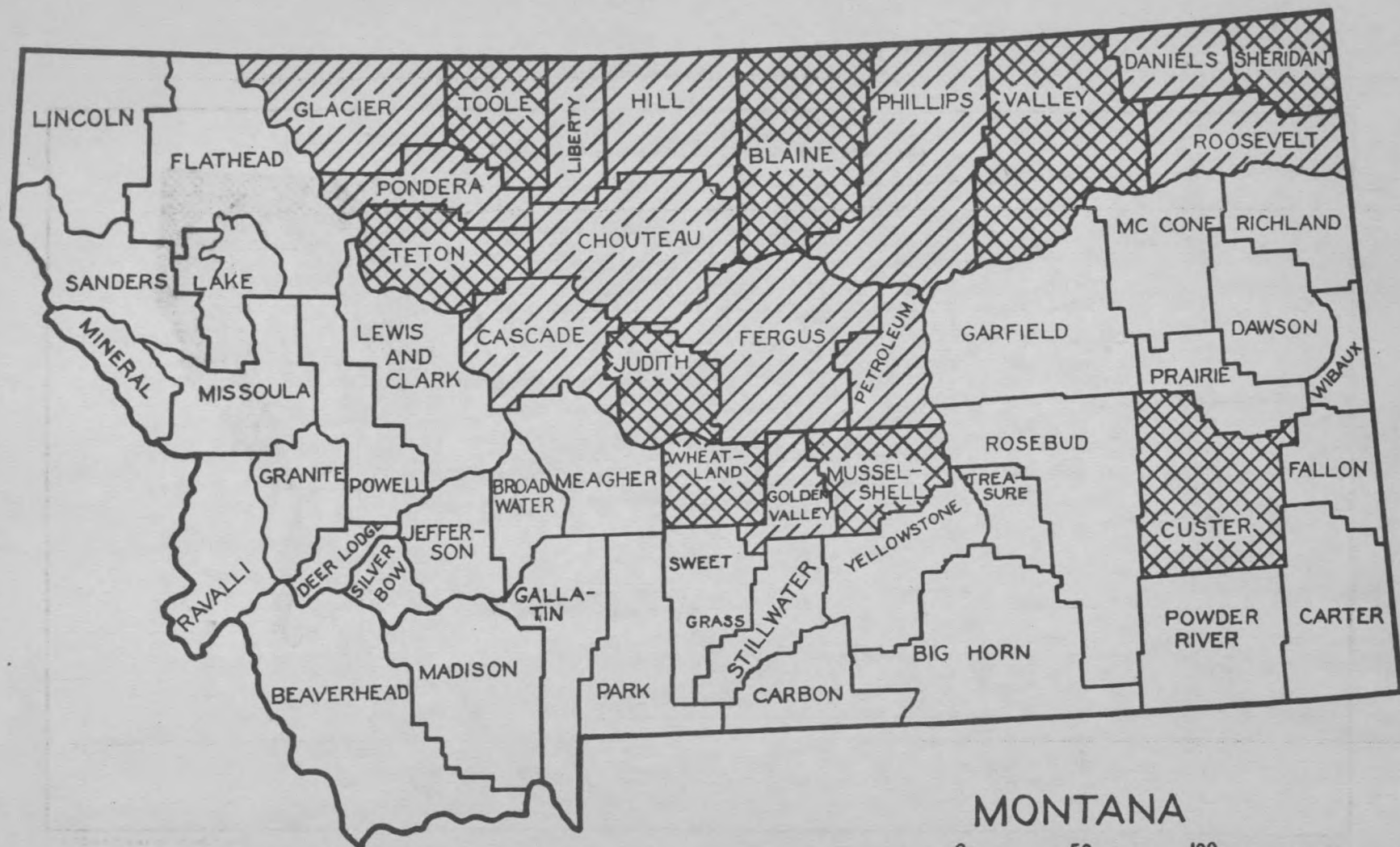
Let us now discuss the general causes of tax delinquency. Since the arousal of interest in the tax problem many suggestions have been made to explain the basic causes of delinquency. These suggestions relegate themselves into three major categories. At this time we shall discuss briefly these general possible causes of the present tax situation in the state under the following three headings; namely, "Depression", "Drouth", and "Mal-adjustment" factors.

Depression Delinquency. Many people have expressed an opinion that the tax delinquency problem has been primarily aggravated during recent years by the numerous general depression factors prevalent in all industries. Such factors include the greater difficulty relative to procuring credit, reduced velocity of business with the resultant lower prices for products sold in a traditional open market, and the much increased difficulty attending the repayment of debts with comparatively "dear" money. If this has been a major cause of increased tax delinquency, then we may reasonably expect that the intensified condition will correspond in duration to the extent of the depression period. Further, it requires that the initiation of such increase in delinquency occur within the limits of the depression. Following this assumption to its logical end, we must conclude that a definite decrease of delinquency to a low point will occur during periods of prosperity. If we refuse to accept this conclusion we have the alternate one that delinquency is so cumulative over the period of a business cycle that a large percentage of land must be freed from tax delinquency at intervals through sale to tax deed. The noticeable amount of land which has been sold to tax deed to satisfy delinquent tax payments during times of prosperity as well as times of

depression is evident of this truth.

In 1928, the climax of a comparatively long and exalted period of prosperity, from 3 percent to 41 percent of the privately-owned land was delinquent in various counties in Montana. The average delinquency at this time was about 18 percent of all privately-owned land within the state. The uniform degree of constancy of the amount of land delinquent and sold to tax deed in older-settled regions with a well-established, permanent type of agriculture indicates the fallacy in assuming that the major portion of the present intensified tax delinquency problem is due to depression factors. True, a study of the tax problem shows that general business depression is a contributing factor to greater delinquency--but a small one. When one realizes the small percentage which taxes constitute of the total cash production costs of the farm operator, he can readily understand what a small difference the change in the index of the value of money from 80 to 110 (a large prosperity-depression difference) would make in the ability to pay that cost. In view of the evidence at hand, I think we must look beyond depression factors to find the major cause of the increased tax delinquency. Supplementary Plate I shows the tax status of Montana land, and indicates to one the amount of land which has been tax delinquent for a long period of time.

Drouth Delinquency. Individuals who look toward definite physical factors as a major cause of delinquency often advance the theory that the present intensified condition may be caused primarily by existing drouth conditions in many regions. Reference to Plates I and II will show the average annual amount of precipitation received by the various counties included in the study. It may be seen that major portions of Musselshell and Toole counties are located within the areas receiving an average precipitation of



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PLATE I- SOIL SURVEY AND TAX STUDY AREAS IN MONTANA, TREATED IN THIS STUDY.

