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DIVISION OF FARM AND RANCH ECONOMICS

## Relative Importance of Intangible Property in Texas



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This study reveals gross inequalities in the taxation of tangible compared with intangible property. The seriousness of these inequalities becomes more intense as the size of estates increases because of the concentration of intangibles in the larger estates. Similarly, rural communities bear a disproportionate share of government costs compared with town and city communities because of the concentration of intangibles in the latter.

According to specific references in the Constitution of Texas and subsequent legislation all property in the State, except that expressly exempted, is subject to taxation. Nevertheless, almost all intangible property, such as stocks, bonds, mortgages, notes, cash in hand, cash on deposit, etc. escapes the payment of a direct tax. The escape of intangible property under our system of taxation is significant in two important respects: first, the extent to which intangible property constitutes a substantial proportion of all property, and, second, the distribution of intangibles relative to the size of property holdings and to different types of communities, such as rural, town, and city.

County probate records have been analyzed to indicate the relative importance of intangible property, and its distribution relative to size of property holdings and to different types of communities. The study involves a complete compilation and classification of property values of 25,187 estates probated in 47 selected counties during the period 1922-1931.

An analysis of the probate records shows:

1. Tangible property constituted 54.1 per cent, and intangible property 45.9 per cent of all property probated.
2. Tangible property constituted 97.1 per cent of the property assessed for taxation for state and county purposes in the 47 counties studied, and intangible property 2.8 per cent.
3. Of all real estate probated 17.8 per cent was in estates of \$500,000 and over, while of all intangibles probated 33.9 per cent was in estates of \$500,000 and over, thus indicating a rather high degree of concentration of intangible property in large estates.
4. Intangible property constituted 31.6 per cent of the property probated in rural communities, 38.4 per cent in town communities, and 50 per cent in city communities.
5. In recently developed agricultural areas intangibles made up only 12.6 per cent of the total, while in older urban areas intangibles constituted 52.6 per cent of all property probated.

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## RELATIVE IMPORTANCE OF INTANGIBLE PROPERTY IN TEXAS

L. P. GABBARD

According to Article 8, Section 1, of the Constitution of the State of Texas, "taxation shall be equal and uniform." It further declares, "all property in the state, whether owned by natural persons or corporations, other than municipal, shall be taxed in proportion to its value, which shall be ascertained as may be provided by law \* \* \*." According to subsequent legislation, "all property, real, personal, and mixed, except such as may be hereinafter expressly exempted, is subject to taxation \* \* \*." It is specifically stated that personal property of every description shall be valued at its true and full value in money. Obviously, it is unmistakably clear both from specific references in the constitution and from subsequent legislation that all property in the State, except that expressly exempted, is subject to taxation. Undoubtedly, the intent of the law is that of equalizing the tax burden insofar as property is to be used as a basis of taxation.

Private property has at least two important aspects, the individual and the social. Property is not an absolute right, but is conditioned by an obligation to society. The right of eminent domain and the right of taxation find their justification in the social side of private property. In fact, taxation may be considered as a return to the general public and society for their recognition of private property rights. Police protection, public security, and secured opportunity for doing business give meaning and value to property. Such attributes are not inherent in property but are provided by organized society. Government is the agency through which organized society functions. The revenues for maintaining governmental activities are obtained through taxation. It is vitally important that the taxes levied be considered just and equitable. To permit gross inequalities in the taxation of property is calculated to develop a serious disrespect for property rights and ultimately to undermine the position of private property. An institution such as private property has its meaning through its relationship to society, and the more harmonious this relationship the more firmly entrenched and secure is the institution. It is logical to inquire how effectively the provisions of the state constitution together with supporting legislation regarding the taxation of property are being enforced, and how nearly the goal of tax equalization is being approached.

In Texas Agricultural Experiment Station Bulletin No. 458, inequalities in the taxation of farm lands and city property due to scope and method of assessment were treated. It was pointed out in that publication that almost all intangible property escapes the payment of a direct tax. For example, attention was called to the fact that during the past ten years intangible property has averaged only about 2 per cent of the total property assessed for state and county purposes. The Tax Survey Committee of Texas, created by the Fortieth Legislature, in its final report, 1929, stressed with much emphasis the escape of personal property from taxation. In

short, the failure of the tax system to reach this type of property is quite generally recognized and especially by those familiar with the problems of assessing property for purposes of taxation. At this point the question arises as to how important intangible property is as related to the total property of a community or the state.

### Object of Study

The chief objects of this study are: (1) to determine the importance of intangible property in Texas as related to real estate and chattels, (2) to indicate the extent to which each class of property is taxed for state and county purposes, and (3) to ascertain the nature of the distribution of the three classes of property in relation to size of estates and to certain population groups—such as, rural, town, and city.

### Method of Procedure

The general method of procedure employed in this study has been the compilation of the values of estates of deceased persons as recorded in the minutes of the county probate courts. The adequacy of this method depends upon the extent to which the probate records are representative of the normal distribution of property. Probate records provide perhaps the only complete official inventory and appraisal of the total value of each estate. This method, however, applies to the distribution of personal wealth only, and does not include property controlled by corporations. Even though this method has its limitations, it is believed that probate records offer the best available criterion of the distribution of property among the members of society.

This method of determining the distribution of property among the members of society was employed in a report made by the Federal Trade Commission, 1926. It was employed by the Illinois Revenue Investigating Committee, 1930, and recently by Dr. E. D. Tetreau in a study of the "Migration of Agricultural Wealth by Inheritance" in two Ohio counties.

### Source and Scope of Data

As a basis for this study data were secured from the probate records of 47 counties selected as representative of the state. Care was exercised to select counties so as to include the important areas of the state, and at the same time maintain a proper balance between different types of communities; such as, rural, town, and city. The location of the selected counties is indicated in Figure 1. A complete compilation was made in each county of all estates probated during the ten-year period, 1922-1931. In all, records of 25,187 estates were compiled.

The property inventoried and appraised in each probated estate is divided into real estate and personal, and the personal property so itemized and described as to be grouped readily into "chattels" and "intangibles." Chattels are defined to include all those objects, whether animate or inanimate, which in contemplation of law are movable. Intangibles have

no substantive existence, existing merely in a legal sense. Intangibles consist for the most part of notes, stocks, bonds, cash, book accounts, etc.

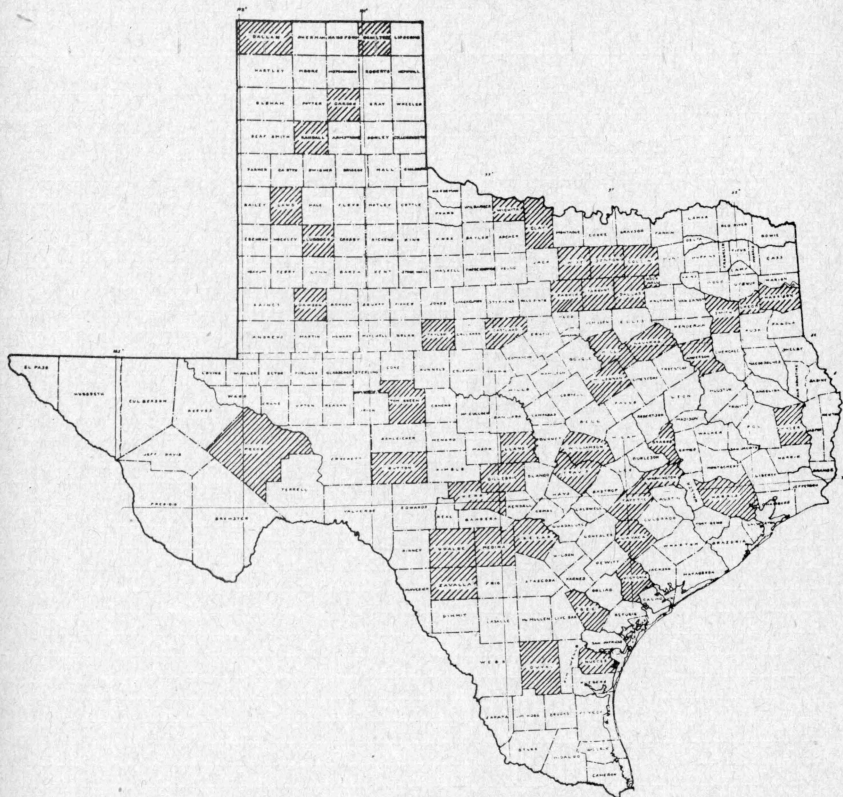


Fig. 1. Shaded counties are those in which a complete compilation and classification of the property values of probated estates were made for the period 1922-1931, inclusive.

Thus the property of each estate compiled was classified and tabulated under three headings—real estate, chattels, and intangibles.

### Intangible Property Constitutes Almost One-Half of the Property Probated

Table 1 shows the amount and proportion of property probated as to real estate, chattels, and intangibles in each of 47 selected counties in Texas for the period 1922 to 1931, inclusive. According to this table, real estate constituted 50.6, chattels 3.5, and intangibles 45.9 per cent of the total property probated. Thus, real estate and intangible property comprise 96.5 per cent of probated estates, and chattels made up the remaining small percentage of 3.5. A casual examination of this table reveals wide variations in the percentages of the different classes of property from county to county. These variations will be treated more fully later in the

Table 1. Amount and percentage of property probated in 47 selected counties of Texas as to real estate, chattels, and intangibles, for the ten-year period 1922-1931.

County	Total property probated	Real estate	Per cent of total	Chattels	Per cent of total	Intangibles	Per cent of total
Harris	\$112,921,699	\$51,154,318	45.30	\$1,046,964	.93	\$60,720,417	53.77
Dallas	92,204,819	41,791,800	45.32	2,025,396	2.20	48,387,623	52.48
Bexar	65,558,599	30,579,928	46.65	1,687,129	2.57	33,291,542	50.78
Tarrant	51,231,897	26,512,972	51.75	2,248,253	4.39	22,470,672	43.86
Travis	22,590,054	11,376,623	50.36	585,050	2.59	10,628,381	47.05
McLennan	22,190,511	13,670,914	61.61	662,333	2.98	7,857,264	35.41
Wichita	12,061,030	5,684,859	47.17	572,236	4.75	5,793,935	48.08
Collin	10,942,500	6,872,279	62.80	245,903	2.25	3,824,318	34.95
Nueces	10,620,811	6,254,373	58.89	520,712	4.90	3,845,726	36.21
Tom Green	10,363,246	5,046,076	48.69	760,332	7.34	4,556,838	43.97
Navarro	8,733,666	3,851,962	44.10	182,108	2.09	4,699,596	53.81
Williamson	8,658,807	5,277,571	60.95	248,073	2.86	3,133,163	36.18
Taylor	6,461,277	4,002,360	61.94	237,024	3.67	2,221,893	34.39
Lubbock	5,839,113	4,404,367	75.43	810,169	13.87	624,577	10.70
Denton	5,775,892	3,852,184	66.69	321,668	5.57	1,602,040	27.74
Victoria	5,689,708	2,781,201	48.88	758,432	13.33	2,150,075	37.79
Parker	5,532,890	3,610,595	65.26	189,346	3.42	1,732,949	31.32
Lavaca	5,292,543	3,023,853	57.13	191,482	3.62	2,077,208	39.25
Washington	5,174,792	2,707,810	52.33	214,132	4.14	2,252,850	43.54
Smith	5,158,982	2,934,598	56.88	183,175	3.55	2,041,209	39.57
Hill	4,760,700	3,296,889	69.25	140,135	2.94	1,323,676	27.80
Harrison	4,597,982	2,008,119	43.67	325,201	7.07	2,264,662	49.25
Fayette	4,065,597	1,974,209	48.56	195,012	4.80	1,896,376	46.64
Eastland	3,816,719	2,172,875	56.93	172,646	4.52	1,471,198	38.55
Duval	3,287,265	1,791,737	54.51	167,921	5.11	1,327,607	40.39
Uvalde	2,811,035	1,616,473	57.50	248,979	8.86	945,583	33.64
Clay	2,790,554	1,854,355	66.45	444,502	15.93	491,697	17.62
Anderson	2,739,350	1,476,984	53.92	89,286	3.26	1,173,080	42.82
Bee	2,639,415	1,624,967	61.57	361,606	13.70	652,842	24.73
Sutton	2,460,637	1,495,199	60.76	613,104	24.92	352,334	14.32
Gillespie	2,254,737	993,865	44.06	150,177	6.66	1,111,195	49.28
Wise	1,663,257	1,178,497	70.85	76,107	4.58	408,653	24.57
Medina	1,606,155	933,536	58.12	145,957	9.09	526,662	32.79
Dallam	1,444,171	953,989	66.06	239,839	16.61	250,343	17.33
Brazos	1,424,300	829,305	58.23	146,203	10.26	448,792	31.51
Randall	1,393,707	1,025,888	73.61	179,567	12.88	188,252	13.51
Kerr	1,307,003	569,607	43.58	61,739	4.72	675,657	51.70
Llano	1,175,040	708,307	60.28	97,881	8.33	368,852	31.39
Pecos	1,120,226	455,123	40.63	160,877	14.36	504,226	45.01
Carson	1,018,375	783,554	76.94	85,427	8.39	149,394	14.67
Dawson	941,076	729,481	77.51	83,943	8.92	127,652	13.56
Ochiltree	867,136	658,703	75.96	110,154	12.70	98,279	11.33
Rockwall	757,571	474,817	62.68	25,206	3.33	257,548	34.00
Gregg	733,368	431,746	58.87	19,725	2.69	281,897	38.44
Tyler	414,405	231,441	55.85	26,145	6.31	156,819	37.84
Lamb	334,799	263,534	78.71	22,277	6.65	48,988	14.64
Zavalla	315,714	166,780	52.83	35,855	11.36	113,079	35.82
Total	525,733,130	266,090,123	50.61	18,115,388	3.45	241,527,619	45.94

discussion. Perhaps the fact of greatest significance to be stressed at this point is the relatively large proportion of property included in intangibles.



Table 2. Amount and classification of property assessed in 47 selected counties of Texas for the year 1931\*

County	Total assessed value	Assessed value real estate	Per cent of total	Assessed value chattels	Per cent total	Assessed value intangibles	Per cent total
Harris	\$341,788,442	\$264,438,184	77.37	\$71,109,283	20.81	\$ 6,241,025	1.82
Dallas	322,832,130	219,083,345	67.86	91,907,975	28.47	11,840,810	3.67
Bexar	191,576,852	153,692,125	80.22	32,476,712	16.95	5,408,015	2.82
Tarrant	177,438,110	140,011,660	78.91	30,895,900	17.41	6,530,550	3.68
McLennan	70,468,270	57,993,240	82.30	10,867,400	15.42	1,607,630	2.28
Wichita	53,762,359	43,818,598	81.50	8,762,881	16.30	1,181,380	2.20
Pecos	52,771,518	7,125,033	13.50	45,583,385	86.38	63,100	.12
Travis	50,223,894	42,249,316	84.12	5,421,063	10.79	2,553,515	5.08
Nueces	38,071,115	33,452,890	87.87	4,109,626	10.79	508,599	1.34
Eastland	33,492,910	21,473,735	64.11	11,817,075	35.28	202,100	.60
Navarro	29,654,381	23,027,056	77.65	5,431,839	18.32	1,195,486	4.03
Williamson	27,762,710	22,159,810	79.82	4,472,115	16.11	1,130,785	4.07
Hill	27,755,811	22,843,600	82.30	4,292,573	15.46	619,638	2.23
Tom Green	27,696,240	22,707,860	81.99	3,780,160	13.65	1,208,220	4.36
Collin	26,637,870	22,083,964	82.90	3,544,896	13.31	1,009,010	3.79
Lubbock	24,901,127	21,761,441	87.39	2,963,217	11.90	176,469	.71
Taylor	24,138,010	19,401,775	80.38	3,803,415	15.76	932,820	3.86
Denton	20,823,230	17,680,190	84.91	2,856,220	13.72	286,820	1.38
Fayette	18,671,158	14,262,750	76.39	3,567,023	19.10	841,385	4.51
Smith	18,019,680	15,066,658	83.61	2,695,722	14.96	257,300	1.43
Harrison	17,435,150	14,450,645	82.88	2,525,120	14.48	459,385	2.63
Lavaca	17,031,060	13,657,070	80.19	2,345,030	13.77	1,028,960	6.04
Anderson	16,138,196	13,178,915	81.66	2,671,181	16.55	288,100	1.78
Carson	15,753,051	6,849,159	43.48	8,821,142	56.00	82,750	.52
Victoria	14,912,212	10,224,510	68.56	3,824,722	25.65	862,980	5.79
Clay	13,128,520	10,635,495	81.01	2,379,075	18.12	113,950	.87
Washington	12,349,630	8,854,210	71.70	2,958,630	23.96	536,790	4.35
Parker	12,186,560	10,047,325	82.44	1,396,055	11.46	743,180	6.10
Wise	11,943,767	10,307,532	86.30	1,488,855	12.46	147,380	1.23
Dallam	11,479,004	9,502,181	82.78	1,778,346	15.49	198,477	1.73
Medina	11,367,815	8,828,585	77.66	2,115,675	18.61	423,555	3.72
Brazos	10,838,991	8,930,254	82.39	1,603,381	14.79	305,356	2.82
Bee	10,783,900	8,361,355	77.54	2,008,660	18.63	413,885	3.84
Uvalde	10,672,258	7,543,750	70.68	2,521,758	23.63	606,750	5.68
Duval	8,830,705	7,522,605	85.19	1,260,000	14.27	48,100	.54
Lamb	8,368,370	7,012,620	83.80	1,297,750	15.51	58,000	.69
Randall	7,509,484	6,340,565	84.43	1,080,349	14.39	88,570	1.18
Dawson	6,663,330	5,624,980	84.42	978,750	14.69	59,600	.89
Ochiltree	6,583,453	5,851,345	88.88	731,908	11.12	200	.003
Zavala	6,517,888	5,355,583	82.17	1,097,323	16.84	64,982	1.00
Tyler	6,443,876	5,528,584	85.80	915,292	14.20		
Gillespie	6,432,225	4,280,540	66.55	1,458,895	22.68	692,790	10.77
Llano	6,369,115	4,590,961	72.08	1,465,158	23.00	312,996	4.91
Kerr	6,308,828	4,484,093	71.08	1,347,635	21.36	477,100	7.56
Gregg	6,282,445	4,497,425	71.59	1,684,770	26.82	100,250	1.60
Sutton	4,690,129	3,201,226	68.25	1,246,178	26.57	242,725	5.18
Rockwall	3,850,864	3,245,271	84.27	522,293	13.56	83,300	2.16
Total property assessed in 47 selected counties	\$1,849,356,643	\$1,393,239,964	75.34	\$403,881,911	21.84	\$52,234,768	2.82
Total property assessed in the State	\$4,241,682,299	\$3,198,739,083	75.41	\$944,292,053	22.26	\$98,651,163	2.33
Property assessed in 47 selected counties as % of total in State	43.60	43.56		42.77		52.95	

\*Report of state comptroller.

If the figures presented in Table 1 are accepted as a cross section of the proportions of the different classes of property as they exist in society, the question may be raised as to the relative proportions of these classes of property as revealed by the assessment rolls of the same 47 counties.

### Intangible Property Practically Escapes Direct Taxation

A compilation of the assessment rolls in each of the 47 selected counties as to real estate, chattels, and intangibles is shown in Table 2. According to this table, real estate constituted 75.3, chattels 21.8, and intangibles 2.8 per cent of the total property assessed. A comparison of these percentages with those of similar classes revealed by the probate records should be of interest. According to the probate records, real estate constituted 50.6 per cent of all property, whereas it constituted 75.3 per cent of all assessed property. Intangible property, which comprised 45.9 per cent of all property passing through probate, constituted but 2.8 per cent of all property assessed in the 47 counties in 1931 for state and county purposes. Chattels constituting 3.5 per cent of probated property represented 21.8 per cent of all assessed property. Thus it is seen that tangible forms of property constituted 97.1 per cent of all property assessed.

It should be observed that all intangible property in Texas is not taxable under the laws of the state. Certain forms of intangibles such as U. S. bonds and other Federal securities, and shares of stock of domestic corporations whose property is taxable in the state, are exempt. But making liberal allowance for exemptions, undoubtedly, a vast amount of taxable intangible property escapes taxation. The escape from taxation of such large and expanding taxable source places an ever-increasing burden of taxes on the more tangible forms of property, especially real estate.

### Estates Vary Widely in Size and Indicate a High Degree of Concentration of Property in a Few Estates

From Table 3 it will be seen that the total value of the 25,187 estates was \$525,733,130 with an average value per estate of \$20,873. Slightly

Table 3. Distribution of property in 47 selected counties of Texas as indicated by the probate records from 1922-1931, inclusive.

Size Group	Number of estates	Value of estates	Average value	Percentage of total estates probated	
				No.	Value
Under \$1,000	4,519	\$ 2,128,535	\$ 471	17.94	.40
\$1,000 to \$5,000	8,747	22,121,792	2,529	34.73	4.21
\$5,000 to \$10,000	4,198	29,261,337	6,970	16.37	5.57
\$10,000 to \$20,000	3,300	46,068,531	13,960	13.10	8.76
\$20,000 to \$100,000	3,537	146,112,363	41,310	14.04	27.79
\$100,000 to \$500,000	767	147,170,398	191,878	3.04	27.99
\$500,000 to \$1,000,000	79	53,434,607	676,387	.31	10.16
\$1,000,000 and over	40	79,435,567	1,985,889	.16	15.11
Total probated estates	25,187	525,733,130	20,873	100.00	100.00

more than 82 per cent of the number fell below the average in size. Estates varied widely in size and indicated a high degree of concentration of property in a relatively few estates. For example, of the 25,187 estates 4,519 were under \$1,000 each and averaged but \$471. At the other extreme were 40 estates \$1,000,000 and over in amount with an average of \$1,986,889. Four-fifths of the number of estates represented one-fifth of the total value of all estates. On the other hand, a group of the larger estates representing 3.5 per cent of all estates comprised 53.3 per cent of the total value of estates probated.

**Distribution of Property by Size Groups According to the Different Classes of Property**

Table 4 shows the distribution of real estate, intangibles, and chattels according to size groups. From an examination of this table it will be observed that real estate was the most generally distributed of the three

**Table 4. Distribution of real estate, intangibles, and chattels in 47 selected counties of Texas as indicated by the probate records from 1922-1931, inclusive.**

Size group	Number of estates	Value of estates	Average value	Percentage of total estates probated	
				No.	Value
<b>Section A—real estate</b>					
Under \$1,000	2,734	\$ 1,156,488	\$ 423	13.65	.43
\$1,000 to \$5,000	6,501	13,606,028	2,093	32.46	5.11
\$5,000 to \$10,000	3,626	19,141,170	5,279	18.11	7.19
\$10,000 to \$20,000	3,009	29,808,311	9,906	15.02	11.20
\$20,000 to \$100,000	3,319	83,938,788	25,290	16.57	31.55
\$100,000 to \$500,000	722	70,956,547	98,278	3.61	26.67
\$500,000 to \$1,000,000	77	21,378,204	277,638	.38	8.03
\$1,000,000 and over	39	26,104,587	669,348	.19	9.81
<b>Total estates probated</b>	<b>20,027</b>	<b>266,090,123</b>	<b>13,286</b>	<b>100.00</b>	<b>100.00</b>
<b>Section B—intangibles</b>					
Under \$1,000	2,053	841,883	410	12.95	.35
\$1,000 to \$5,000	4,856	7,346,958	1,513	30.64	3.04
\$5,000 to \$10,000	2,693	8,734,073	3,243	16.99	3.62
\$10,000 to \$20,000	2,407	14,273,580	5,915	15.19	5.91
\$20,000 to \$100,000	2,985	57,079,536	19,122	18.83	23.63
\$100,000 to \$500,000	735	71,379,807	97,115	4.64	29.55
\$500,000 to \$1,000,000	80	29,834,482	372,931	.50	12.35
\$1,000,000 and Over	40	52,037,300	1,300,932	.25	21.55
<b>Total estates probated</b>	<b>15,849</b>	<b>241,527,619</b>	<b>15,239</b>	<b>100.00</b>	<b>100.00</b>
<b>Section C—chattels</b>					
Under \$1,000	789	131,489	167	7.63	.72
\$1,000 to \$5,000	3,072	1,188,749	387	29.69	6.56
\$5,000 to \$10,000	1,956	1,417,679	725	18.90	7.82
\$10,000 to \$20,000	1,776	2,031,818	1,144	17.16	11.22
\$20,000 to \$100,000	2,142	5,156,957	2,408	20.70	28.47
\$100,000 to \$500,000	524	4,809,147	9,178	5.06	26.55
\$500,000 to \$1,000,000	59	2,191,142	37,138	.57	12.10
\$1,000,000 and over	29	1,188,407	40,980	.28	6.56
<b>Total estates probated</b>	<b>10,347</b>	<b>18,115,388</b>	<b>1,751</b>	<b>100.00</b>	<b>100.00</b>

classes of property. For example, 20,027 of the 25,187 estates had real estate, 15,849 intangibles, and 10,347 chattels. All classes showed a concentration of property values, but this feature was especially marked in the case of intangibles. A glimpse at section B of the table reveals that  $\frac{3}{4}$  of one per cent of the number of estates comprised 34 per cent of the value of all intangible property probated.

### Distribution of Property Relative to Different Types of Communities— Rural, Town, and City

Table 5 indicates a significant difference between the investment of rural people and that of town and city people. For example, country communities showed a relatively large investment in real estate and chattels and a rela-

Table 5. Amounts and percentages of the different classes of property in different types of communities\* as indicated by probate data, 1922-1931.

Type of community	Total property in group	Classes of property					
		Real estate	Per cent	Chattels	Per cent	Intangibles	Per cent
Rural	\$ 42,366,559	\$ 25,334,757	59.81	\$ 3,628,269	8.61	\$ 13,403,533	31.61
Town	116,668,992	65,668,811	56.31	6,231,994	5.31	44,768,187	38.41
City	336,697,579	175,086,555	47.81	8,255,125	2.31	183,355,899	50.00
Grand total	525,733,130	266,090,123	50.61	18,115,388	3.51	241,527,619	45.91

\*Rural—includes those counties of the 47 selected counties without a town of a population of 5,000, Town—those having towns of 5,000 to 50,000 population, and City—those having a city with a population over 50,000.

tively small investment in intangibles; however, with an increase in urban population the relative importance of tangible property decreased and that of intangible property increased. Intangibles represented on an average 31.6 per cent of property values probated in rural communities, 38.4 per cent in town communities, and 50 per cent in city communities. These figures are quite significant, considering the tax system as it operates at present. The property of rural communities, with a relatively large amount of tangibles, is taxed in much greater proportion to the total than is the property of town and city communities, which have a relatively large amount of intangibles, which practically escape taxation. The extremes of this situation are well illustrated by a comparison of the distribution of probated property in a group of frontier, rural counties with a group of counties having a high percentage of urban population. A brief examination of Table 6 will tell the story. The percentages of real estate, chattels, and intangibles are 74.5, 12.9, and 12.6 per cent respectively for the frontier group. Similarly, for the urban group, the percentages are 45.6, 1.8, and 52.6. It will be noted that tangible property comprised 85 to 90 per cent of all property probated in the group of frontier counties, and 45 to 50 per cent in the group of urban counties. Intangible property comprised 12.6 per cent of probated property in the rural group and 52.6 per cent in

the urban group. This situation strongly signifies that the wealth of communities largely rural is far more vulnerable to taxation than is the wealth of communities having a high percentage of intangibles. In like

Table 6. Percentages of the different classes of property probated in a group of selected rural and urban counties.

County	Classes of property probated		
	Per cent of real estate to total	Per cent of chattels to total	Per cent of intangibles to total
<b>Section A</b>			
Lubbock	75.4	13.9	10.7
Dallam	66.1	16.6	17.3
Dawson	77.5	8.9	13.6
Lamb	78.7	6.9	14.6
Ochiltree	76.0	12.7	11.3
Randall	73.6	12.9	13.5
Carson	77.0	8.4	14.7
Group average	74.5	12.9	12.6
<b>Section B</b>			
Harris	45.3	.9	53.8
Dallas	45.3	2.2	52.5
Bexar	46.6	2.6	50.8
Group average	45.6	1.8	52.6

manner, individual estates composed largely of tangible property are much more exposed to taxation than are those estates made up largely or entirely of intangibles.

#### How Other States Have Approached the Problem of Taxing Intangibles\*

It is inconceivable that inequalities as grave as those caused by the wholesale escape of intangible property will continue to be tolerated in Texas without a vigorous endeavor to remedy them. It is not the object of this study to recommend any particular remedy, but it is thought proper to call the reader's attention briefly to the procedure of some of the states in their effort to reach intangible property.

About 20 states provide for a preferential treatment of intangibles in their system of taxation. The approach to the problem has varied rather widely. In a number of states intangibles carry a low-rate tax based on an annual evaluation. There is serious doubt as to whether intangible property can be reached effectively by this method. The experience of states having such laws, notably, Minnesota, Kentucky, Virginia, and Montana, is none too encouraging. True enough, they have been fairly successful in increasing the amount of intangible property on their tax rolls, but the rate has been so low as to be relatively unproductive of revenue. This criticism is offered not with the idea of minimizing such efforts to correct a defect in the tax system, but as a warning not to be too optimistic over the results of such legislation. A fractional assessment law has been

\*Leland, "The Classified Property Tax in the United States," ch. VIII, pp. 179-221.

enacted by at least one state, Louisiana. Under this law various types of bonds are assessed at 10 per cent of their market value and taxed at the regular rate. A registration or recording tax has been employed by a number of states. Under such a law mortgages, bonds, and other types of intangibles are exempt from the payment of a property tax upon the registration and payment of a given tax on each \$100 worth of such investments. The failure to register documents subject under the law generally carries a penalty. The registration tax raises the question as to the shifting of the burden of the tax, in full, or in part, to the borrower through an increase in the interest rate on mortgages. Students of tax problems are not in complete agreement on the answer to this question. It can be said with a fair degree of certainty, however, that the degree of shifting depends upon a number of factors, such as the availability of other investments, the rate of the tax, the extent of the area to which the law applies, etc. For example, a low rate and a poor opportunity for other investments make it difficult for the lender to shift the tax to the borrower. Customary rates tend to become fixed and discourage sudden changes in rates.

A few states have made an effort to reach intangibles by means of income taxes, rather than through low-rate taxes. The income taxes employed have been of two types. The first type is the general income tax which taxes the income of intangibles along with the income from all other sources. This type prevails in Delaware, Mississippi, Missouri, New York, North Carolina, Virginia, and Wisconsin. The second type of income tax is one especially designed to reach income from intangibles or other specifically designated property. This latter type of income tax is found in Massachusetts and New Hampshire and is in lieu of personal property taxes on intangibles.

### Summary and Conclusions

In this study of the distribution of property according to probated records, a complete compilation of probated estates was made in 47 selected counties for the ten-year period 1922-1931, inclusive. In all, records of 25,187 estates were compiled. The property of each estate was classified under three headings—real estate, chattels, and intangibles. Summarized on this basis real estate constituted 50.6, chattels 3.5, and intangibles 45.9 per cent of the total property probated. A compilation of the assessment rolls in the same 47 counties for the year 1931 shows that real estate comprised 75.3, chattels 21.8, and intangibles 2.8 per cent of all property assessed for state and county purposes.

Accepting these figures as a reliable cross section of the proportions of the different classes of property existing in society, one may conclude that intangible property comprises 45 to 50 per cent of all property. Furthermore, according to the facts revealed by the assessment rolls, intangibles made up but 2.8 per cent of all property assessed. Thus, a disproportionate tax burden is placed on tangible forms of property.

An analysis of the data relative to size of estates indicates a wide range and a high degree of concentration of property in a comparatively few estates. The probated property of the 25,187 estates totaled \$525,733,130

with an average value of \$20,873 per estate. Eighty-two per cent of the number fell below the average in size. Four-fifths of the number of estates represented only one-fifth of the total value of all estates. On the other hand, a group of the larger estates representing 3.5 per cent of all estates constituted 53.3 per cent of the total value of estates. Intangibles showed a considerably higher degree of concentration than did either real estate or chattels. Thus, it is seen that not only do intangibles almost escape taxation, but that such property has a strong tendency to be associated with the larger estates, presumably more able to pay taxes than the smaller estates.

A significant revelation is the variation in the composition of property of different types of communities. For example, intangibles represented 31.6 per cent of the property probated in rural communities, 38.4 per cent in town communities, and 50 per cent in city communities. A more extreme situation is illustrated by a comparison of the distribution of property in a group of newly developed counties with that of a group of urban counties. In the rural group intangibles made up but 12.6 per cent of the total while in the urban group intangibles constituted 52.6 per cent of the total. This situation strongly signifies that the wealth of communities largely rural is far more vulnerable to taxation than is the wealth of communities having a high percentage of intangibles.

About twenty states have made provision in their tax laws for a preferential treatment of intangibles. The approach to the problem has varied widely, but with few exceptions legislation dealing with the taxation of intangibles may be grouped under one of the following headings:

1. A **low-rate tax** based on an annual evaluation: This method has been employed especially by Minnesota, Kentucky, Virginia, and Montana.
2. A **fractional assessment law**: Under such a law various types of intangibles are assessed at some per cent less than 100 and taxed at the regular rate.
3. A **registration or recording tax**: The registration fee is usually in lieu of all property taxes.
4. An **income tax**: Income taxes employed for the purpose of reaching intangible property are of two types. The first is the general income tax which taxes the income of intangibles along with the income from all other sources. A number of states employ this type, notably, Delaware, Mississippi, Missouri, New York, North Carolina, Virginia, and Wisconsin. The second type is an income tax designed specifically to reach incomes from intangibles.