

Banks Vs. Mayor

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Court : US Supreme Court

Decided On : 1868

Appeal No. : 74 U.S. 16

Appellant : Banks

Respondent : Mayor

Judgement :

Banks v. Mayor - 74 U.S. 16 (1868)

U.S. Supreme Court Banks v. Mayor, 74 U.S. 7 Wall. 16 16 (1868)

Banks v. Mayor

74 U.S. (7 Wall.) 16

ERROR TO THE COURT OF

APPEALS OF NEW YORK

SYLLABUS

1. Where an act of a state legislature authorized the issue of bonds, by way of refunding to banks such portions of a tax as had been assessed on federal securities made by the Constitution and statutes of the United States exempt from

taxation, and the officers who were empowered to issue the obligations refused to sign them because, as they alleged, a portion of the securities for the tax on which the bank claimed reimbursement, was, in law, not exempt, and the highest court of the state sanctioned this refusal,

Held that this was a decision by a state court against a right, privilege, or immunity claimed under the Constitution or a statute of the United States, and so that this Court had jurisdiction under the 25th section of the Judiciary Act, and the Amendatory Act of February 5, 1867.

2. Certificates of indebtedness issued by the United States to creditors of the

Page 74 U. S. 17

government for supplies furnished to it in carrying on the recent war for the integrity of the Union, and by which the government promised to pay the sums of money specified in them, with interest, at a time named, are beyond the taxing power of the states.

These were three cases in error to the Court of Appeals of New York in which the people of that state, at the relation of different banks there, were plaintiffs in error and the Mayor and Controller of the City of New York were defendants. Each presented, under somewhat different forms, the same question, namely: "Are the obligations of the United States, known as certificates of indebtedness, liable to be taxed by state legislation?"

The certificates referred to were issued under authority of Congress, empowering the Secretary of the Treasury to issue them to any public creditor who might be desirous of receiving them. They were payable in one year or earlier, at the option of the government, and bore six percent interest. In the present cases, they had been issued to creditors for supplies necessary to carrying on the war for the suppression of the late rebellion.

The three cases were argued and considered together. The more immediate case in each was thus:

In 1863 and in 1864, the proper officers of the state, acting under the laws of New York, assessed certain taxes upon the capital stock of the several banking associations in that state. Some of these banking associations resisted the collection of the tax on the ground that, though nominally imposed upon their respective capitals, it was in fact imposed upon the bonds and obligations of the United States in which a large proportion of these capitals was invested, and which, under the Constitution and laws of the United States, were exempt from state taxation.

This question was brought before the Court of Appeals, which sustained the assessments and disallowed the claim of the banking associations.

From this decision an appeal was taken to this Court, upon the hearing of which, at the December Term 1864, it was adjudged that the taxes imposed upon the capitals of the associations

Page 74 U. S. 18

were a tax upon the national bonds and obligations in which they were invested, and therefore so far contrary to the Constitution of the United States. [[Footnote 1](#)]

A mandate in conformity with this decision was sent to the Court of Appeals of New York, which court thereupon reversed its judgment and entered a judgment agreeably to the mandate.

Afterwards, on the 30th of April, 1866, the Legislature of New York provided by law for refunding to the banking associations and other corporations in like condition the taxes of 1863 and 1864 collected upon that part of their capitals invested in securities of the United States exempt by law from taxation. The Board of Supervisors of the County of New York was charged with the duty of auditing and allowing, with the approval of the mayor of the city and the corporation counsel, the amount collected from each corporation for taxes on the exempt portion of its capital, together with costs, damages, and interest. Upon such auditing and allowance, the sums awarded were to be paid to the corporations severally

entitled, by the issue to each of New York County seven percent bonds of equal amounts. These bonds were to be signed by the Controller of the City of New York, countersigned by the mayor, and sealed with the seal of the board of supervisors, and attested by the clerk of the board.

Under this act, the board of supervisors audited, and allowed to the several institutions represented in the three cases under consideration, their several claims for taxes collected upon the national securities held by them, including in this allowance the taxes paid on certificates of indebtedness, which the corporations asserted to be securities of the United States exempt from taxation. But the controller, mayor, and clerk refused to sign, countersign, seal, and attest the requisite amount of bonds for payment, insisting that certificates of indebtedness were not exempt from taxation. A writ of mandamus was thereupon sued out of the

Page 74 U. S. 19

supreme court of New York for the purpose of compelling these officers to perform their alleged duties in this respect. An answer was filed, and the court by its judgment sustained the refusal. An appeal was taken to the Court of Appeals of New York, by which the judgment of the supreme court was affirmed. Writs of error under the 25th section of the Judiciary Act brought these judgments here for revision; the section [[Footnote 2](#)] which gives such writ where is drawn in question the validity of a statute of, or authority exercised under any state on the ground of their being repugnant to the Constitution or laws of the United States and the decision is in favor of such validity, or where is drawn in question the construction of any clause of the Constitution or statute of the United States and the decision is against the title, right, privilege, or exemption specially set up &c.; -- a paragraph, this last, reenacted by Act of February 5, 1867, [[Footnote 3](#)] with additional words, as

"where any title, right, privilege, or immunity is claimed under the Constitution, or any statute of or authority exercised under the United States, and the decision is against the title, right, privilege, or immunity specially set up"

&c.;

Page 74 U. S. 22

THE CHIEF JUSTICE delivered the opinion of the Court in all the cases.

The first question to be considered is one of jurisdiction. It is insisted in behalf of the defendants in error that the judgment of the New York Court of Appeals is not subject to review in this Court.

But is it not plain that under the act of the legislature of New York, the banking associations were entitled to reimbursement by bonds of the taxes illegally collected from them in 1863 and 1864?

No objection was made in the state court to the process by which the associations sought to enforce the issue of the bonds to which they asserted their right. Mandamus to the officers charged with the execution of the state law seems to have been regarded on all hands as the appropriate remedy.

But it was objected on the part of those officers that the particular description of obligations, of the tax on which the associations claimed reimbursement, were not exempt from taxation. The associations, on the other hand, insisted that these obligations were exempt under the Constitution and laws of the United States. If they were so exempt, the associations were entitled to the relief which they sought. The judgment of the Court of Appeals denied the relief upon the ground that certificates of indebtedness were not entitled to exemption. Is it not clear that, in the case before the state court, a right, privilege, or immunity was claimed under the Constitution or a statute of the United States, and that the decision was against the right, privilege, or immunity claimed? And therefore that the jurisdiction of this Court to review that decision is within the express words of the amendatory act of February 5, 1867? There

Page 74 U. S. 23

can be but one answer to this question. We can find no ground for doubt on the point of jurisdiction.

The general question upon the merits is this:

Were the obligations of the United States, known as certificates of indebtedness, liable to state taxation?

If this question can be affirmatively answered, the judgments of the Court of Appeals must be affirmed; if not, they must be reversed.

Evidences of the indebtedness of the United States, held by individuals or corporations, and sometimes called stock or stocks but recently better known as bonds or obligations, have uniformly been held by this Court not to be liable to taxation under state legislation.

The authority to borrow money on the credit of the United States is, in the enumeration of the powers expressly granted by the Constitution, second in place, and only second in importance to the authority to lay and collect taxes. Both are given as means to the exercise of the functions of government under the Constitution, and both, if neither had been expressly conferred, would be necessarily implied from other powers. For no one will assert that without them the great powers -- mentioning no others -- to raise and support armies, to provide and maintain a navy, and to carry on war could be exercised at all, or if at all, with adequate efficiency.

And no one affirms that the power of the government to borrow, or the action of the government in borrowing, is subject to taxation by the states.

There are those, however, who assert that although the states cannot tax the exercise of the powers of the government, as for example in the conveyance of the mails, the transportation of troops, or the borrowing of money, they may tax the indebtedness of the government when it assumes the form of obligations held by individuals, and so becomes in a certain sense private property.

This Court, however, has constantly held otherwise.

Forty years ago, in the case of *Weston v. City of Charleston*,

Page 74 U. S. 24

this Court, speaking through Chief Justice Marshall, said: [[Footnote 4](#)]

"The American people have conferred the power of borrowing money upon their government, and by making that government supreme have shielded its action in the exercise of that power from the action of the local governments. The grant of the power is incompatible with a restraining or controlling power, and the declaration of supremacy is a declaration that no such restraining or controlling power shall be exercised."

And applying these principles, the Court proceeded to say:

"The right to tax the contract to any extent, when made, must operate on the power to borrow before it is exercised, and have a sensible influence on the contract. The extent of this influence depends on the will of a distinct government. To any extent, however inconsiderable, it is a burden upon the operations of the government. It may be carried to an extent which shall arrest them entirely."

And finally:

"A tax on government stock is thought by this Court to be a tax on the contract, a tax on the power to borrow money on the credit of the United States, and consequently repugnant to the Constitution."

Nothing need be added to this except that in no case decided since have these propositions been retracted or qualified. The last cases in which the power of the states to tax the obligations of the government came directly in question were those of the *Bank of Commerce v. City of New York* [[Footnote 5](#)] in 1862 and the *Bank Tax Case* [[Footnote 6](#)] in 1865, in both of which the power was denied.

An attempt was made at the bar to establish a distinction between the bonds of the government expressed for loans of money and the certificates of indebtedness for

which the exemption was claimed. The argument was ingenious, but failed to convince us that such a distinction can be maintained.

Page 74 U. S. 25

It may be admitted that these certificates were issued in payment of supplies and in satisfaction of demands of public creditors. But we fail to perceive either that there is a solid distinction between certificates of indebtedness issued for money borrowed and given to creditors, and certificates of indebtedness issued directly to creditors in payment of their demands, or that such certificates, issued as a means of executing constitutional powers of the government other than of borrowing money, are not as much beyond control and limitation by the states through taxation as bonds or other obligations issued for loans of money.

The principle of exemption is that the states cannot control the national government within the sphere of its constitutional powers -- for there it is supreme -- and cannot tax its obligations for payment of money issued for purposes within that range of powers, because such taxation necessarily implies the assertion of the right to exercise such control.

The certificates of indebtedness in the case before us are completely within the protection of this principle. For the public history of the country and the acts of Congress show that they were issued to creditors for supplies necessary to the government in carrying on the recent war for the integrity of the Union and the preservation of our republican institutions. They were received instead of money at a time when full money payment for supplies was impossible, and according to the principles of the cases to which we have referred are as much beyond the taxing power of the states as the operations themselves in furtherance of which they were issued.

It results that the several judgments of the Court of Appeals must be

Reversed.

[[Footnote 1](#)]

[Bank Tax Case](#), 2 Wall. 200.

[[Footnote 2](#)]

1 Stat. at Large 85.

[[Footnote 3](#)]

14 *id.* 384.

[[Footnote 4](#)]

[27 U. S. 2](#) Pet. 467.

[[Footnote 5](#)]

[67 U. S. 2](#) Black 628.

[[Footnote 6](#)]

[69 U. S. 2](#) Wall. 200.