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Dane Vs. Jackson

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Court : US Supreme Court

Decided On : Jun-01-1921

Appeal No. : 256 U.S. 589

Appellant : Dane

Respondent : Jackson

Judgement :

Dane v. Jackson - 256 U.S. 589 (1921)
U.S. Supreme Court Dane v. Jackson, 256 U.S. 589 (1921)

Dane v. Jackson

No. 720

Argued April 15, 1921

Decided June 1, 1921

256 U.S. 589

ERROR TO THE SUPREME JUDICIAL COURT

OF THE STATE OF MASSACHUSETTS

SYLLABUS

1. This Court cannot revise the taxing systems of the states in an attempt to produce a more just distribution of the burdens of taxation than that arrived at by the state legislatures. P. 256 U. S. 598 .

2. A state tax law, to be in conflict with the Fourteenth Amendment, must propose, or clearly result in, such flagrant and palpable inequality between the burden imposed and the benefit received as to amount to the arbitrary taking of property without compensation. P. 256 U. S. 598 .

3. In Massachusetts, the state and local taxes on real estate, tangible personal property and polls are laid and collected by the respective municipal subdivisions, each paying its quota to the state, but intangible personal property has been largely exempted from local taxation, and the revenue therefrom is derived through a uniform income tax, laid and collected directly by the state, and is distributed to the subdivisions not in proportion to the amounts of it contributed from each, but under a plan whereby, in increasing percentages through a series of years, and thereafter in its entirety, it is to be divided among them annually in proportion to the amounts of their respective state taxes, based on real estate, tangible personal property and polls. (Gen. Acts 1919, c. 314.)

HELD

(1) That this plan of distribution, part of a complex scheme designed to correct inequalities and prevent evasion, cannot be interfered with, as in violation of the Fourteenth Amendment, upon the ground that, in operation, it returns to the plaintiff's town less income tax than he and its other inhabitants pay, and distributes the overplus to other subdivisions which may elect to use it for their local purposes not beneficial to those who paid it. P. 256 U. S. 569 .

(2) It is to be presumed that the moneys so distributed will be devoted to lawful public uses. P. 256 U. S. 601 .

129 N.E. 606 affirmed.

The case is stated in the opinion, *post,* 256 U. S. 594 .

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MR. JUSTICE CLARKE delivered the opinion of the Court.

In this proceeding, we are asked to review and reverse a judgment of the Supreme Judicial Court of Massachusetts holding valid an act of the General Court (General Acts 1919, c. 314) providing for the distribution of the proceeds of an income tax among the towns, cities, and taxing districts of that state against the contention that it violates the due process and equal protection of the law

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clauses of the Fourteenth Amendment to the Constitution of the United States.

By amendment to the Constitution of Massachusetts, approved by the people in 1915 (XLIV), the General Court was given power to impose a tax at different rates upon income derived from different classes of property, but at a rate uniform throughout the commonwealth on incomes derived from the same class of property and to exempt the property producing such income from other taxes.

Pursuant to this authority, a law was enacted in 1916 (General Acts 1916, c. 269), which it is sufficient to describe as taxing, with exceptions negligible here, income received from bonds, notes, money at interest and debts due the person paying the tax, dividends on shares of any corporations not organized under the laws of Massachusetts, dividends on shares in partnerships, associations or trusts, the interest in which is represented by transferable shares, and income derived from professions, employments, trade or business. Intangible property, the income from which is taxed by the act, is practically exempted from local taxation.

The validity of this act is not assailed.

Prior to the enactment of this law, the taxing subdivisions of the state had taxed the real estate and tangible and intangible personal property, within their

respective jurisdictions, for both state and local purposes, and the exemption from local taxation of intangible property, provided for in the act, necessarily resulted in an important reduction in their revenues.

The proceeds of the income tax thus provided for were distributed by temporary acts applicable only to the years 1917 and 1918, but, in the year 1919, the act was passed, the validity of which is assailed in this proceeding, which provides, in substance: that the State Treasurer shall pay to each city, town, and district, from the income tax

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collected for the year 1919, an amount equal to ninety percent of the difference between the average amount of the tax levied on tangible and intangible personal property therein in the years 1915 and 1916 and the average that would be produced by a tax upon the personal property actually assessed therein for the years 1917 and 1918 at the average of the rates of taxation prevailing therein in 1915 and 1916. In each succeeding year, until and including the year 1927, the amount payable was reduced to an amount ten percent less than it was for the next preceding year. Any amount collected in any year prior to 1928 in excess of the required payments must be distributed to the cities, towns and districts of the state in proportion to the amount of the state tax imposed upon each for such year, and in 1928 and thereafter the whole of the amount of the income tax must be so distributed each year.

It is obvious that it was the purpose of this act to reimburse the various taxing subdivisions until the year 1928 to the extent thought necessary to supply the loss which each would sustain by the withdrawal from its taxing power of the intangible property the income of which was taxed by the state, and that, prior to 1928, any excess of the income tax fund over such requirements, and beginning with that year and continuing thereafter, the whole of that fund, should be distributed to such subdivisions in proportion to the amount of the state tax paid by each.

The petition in the case is one for mandamus, and the essential allegations of it are that the petitioner, an inhabitant of the Town of Brookline, in the years 1919 and 1920, derived income from intangible personal property and otherwise which rendered him subject to the provisions of the Income Tax Act of 1916; that the state tax in Massachusetts is imposed upon towns and cities in proportion to the value of the real estate and tangible personal property and polls taxable therein, without regard

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to intangible property or incomes taxed; that a sum in excess of $1,000,000 was raised in the year 1920 by the taxation of the inhabitants of Brookline upon incomes derived during the year 1919 from intangible property located in that town and on other income earned therein, and that as great an amount will be in like manner raised in 1921; that, under the distribution statute of 1919, there will be returned to the Town of Brookline not more than $500,000 in the year 1920, and in each year thereafter a less amount, until, in the year 1928, not more than $250,000 will be returned to it, while other towns, having greater real estate and tangible personal property valuation for taxation, will receive much more than their inhabitants will have contributed to the income tax fund, and that such payments may be used by the cities and towns receiving them, if they so elect, for the exclusive use and benefit of their own inhabitants for local and "proprietary" purposes, which would not in any degree contribute to the benefit of the petitioner, or of the inhabitants of Brookline or of the citizens generally of the commonwealth. Upon these allegations, a writ of mandamus, commanding the respondent not to distribute any of the income tax collected in the years 1920 or 1921, was prayed for.

Upon demurrer, the petition was dismissed.

This statement of the case shows that it is admitted that the Income Tax Act of 1916 is a valid law, that the contention is only that the Act of 1919, providing for distribution of the tax, is unconstitutional, and that this contention rests wholly upon the allegation of the petition that such amount of the income tax collected by

the state from the plaintiff in error and from other inhabitants of Brookline as may be returned to any other subdivision thereof, may, if the subdivision so elects, be used for local or "proprietary" purposes such that no benefit whatever will accrue from the expenditure of the tax to the plaintiff

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in error or to other inhabitants of the Town of Brookline or to the inhabitants of the state in general.

It is argued that from these conditions it must follow that the plaintiff in error and other inhabitants of Brookline are taxed for the exclusive benefit of the inhabitants of other subdivisions of the state, and that this violates the due process of law clause, or, if not that, the equal protection of the laws clause of the Fourteenth Amendment to the Constitution of the United States, and that therefore the proposed distribution of the tax should be restrained.

The relation of the power of the federal courts to the taxing systems of the states has been the subject of much discussion in the opinions of this Court, notably in the following cases: *McCullough v. Maryland,* 4 Wheat. 316, 17 U. S. 428 -432; *Providence Bank v. Billings and Pittman,* 4 Pet. 514, 29 U. S. 563 ; *State Tax on Foreign Held Bonds,* 15 Wall. 300, 82 U. S. 319 ; *Davidson v. New Orleans,* 96 U. S. 97 , 96 U. S. 105 ; *Kirtland v. Hotchkiss,* 100 U. S. 491 , 100 U. S. 497 ; *Memphis Gas Light Co. v. Taxing District of Shelby County,* 109 U. S. 398 , 109 U. S. 400 ; *Bell's Gap Railroad Co. v. Pennsylvania,* 134 U. S. 232 , 134 U. S. 237 -238; *Merchants' & Manufacturers' Bank v. Pennsylvania,* 167 U. S. 461 , 167 U. S. 463 -464; *Henderson Bridge Co. v. Henderson City,* 173 U. S. 592 , 173 U. S. 615 -616; *Travelers' Insurance Co. v. Connecticut,* 185 U. S. 364 , 185 U. S. 371 ; *Wagner v. Baltimore,* 239 U. S. 207 , 239 U. S. 220 .

While the nature of the subject does not permit of much finality of general statement, it may plainly be derived from the cases cited that, since the system of taxation has not yet been devised which will return precisely the same measure of benefit to each taxpayer or class of taxpayers, in proportion to payment made, as

will be returned to every other individual or class paying a given tax, it is not within either the disposition or power of this Court to revise the necessarily complicated taxing systems of the states for the purpose of attempting to produce what might be thought to be a more just distribution of the

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burdens of taxation than that arrived at by the state legislatures (29 U. S. 4 Pet. 517; 82 U. S. 15 Wall. 319; 109 U. S. 109 U.S. 400; 185 U. S. 185 U.S. 371, *supra*), and that where, as here, conflict with federal power is not involved, a state tax law will be held to conflict with the Fourteenth Amendment only where it proposes, or clearly results in, such flagrant and palpable inequality between the burden imposed and the benefit received as to amount to the arbitrary taking of property without compensation -- "to spoliation under the guise of exerting the power of taxing." 134 U. S. 134 U.S. 237; 173 U. S. 173 U.S. 615; 239 U. S. 239 U.S. 220, *supra.* For other inequalities of burden or other abuses of the state power of taxation, the only security of the citizen must be found in the structure of our government itself. So early as 29 U. S. 4 Pet. 563, *supra,* it was said by Chief Justice Marshall:

"This vital power [of taxation] may be abused, but the Constitution of the United States was not intended to furnish the corrective for every abuse of power which may be committed by the state governments. The interest, wisdom, and justice of the representative body, and its relations with its constituents, furnish the only security, where there is no express contract, against unjust and excessive taxation; as well as against unwise legislation generally."

The application of this summary of the law renders our conclusion not doubtful.

The income tax involved is uniform in its application to all income within the description of the act of all inhabitants of the state without regard to the taxing subdivision in which they may reside. It is collected by the state, and the capital value producing the tax is practically exempted from other taxation. The tax was authorized by the people of the state and the act was given form by the legislature,

for the purpose of correcting flagrant inequalities of taxation, resulting from what the Supreme Judicial Court, in the opinion in this case, called the "colonization" of wealthy owners of intangible securities in

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towns and cities which had exceptionally low rates of taxation "brought about by avoidance and evasion, legal and illegal, of the tax laws prevailing before the enactment of the income tax law." Report to the Senate and House of Representatives of Massachusetts by "the Joint Special Committee on Taxation," January 31, 1919. The report just referred to was made after an elaborate study of the subject of the distribution of this income tax, in the progress of which largely attended public hearings were held in many cities of the state, and it recommended the law assailed in substantially the form in which it was enacted. The plan of returning the tax to the various taxing districts in which those who paid it resided, which is so strongly urged in argument, was carefully considered, and was rejected as expensive and difficult, if not impracticable, of application, and as calculated to ignore the considerations which led to the enactment of the law and to restore the evils and inequalities of taxation which it was devised to correct. It is also apparent that this distribution law should not be considered as an isolated provision, but as an important part, which it clearly is, of an elaborate and involved system of state taxation which would be seriously affected by the granting of such a writ of mandamus as is prayed for.

Accepting as true, as we must, the allegation of the petition, admitted by the demurrer, that the local subdivisions of the state may, "if they so elect," devote the money derived from the income tax through the distribution provided for in the act assailed, to purposes which might not confer any certain benefit upon the plaintiff in error or persons in like situations, yet it must be accepted, on the other hand, that it is entirely clear that there are many purposes to which these subdivisions may devote the money, "if they so elect," which would be of such statewide influence that the plaintiff in error and those similarly situated would very certainly be benefited

by the expenditure of it. It must be said also in this case, as was said by the Supreme Judicial Court of Massachusetts in the decision of a similar case, *Duffy v. Treasurer and Receiver General,* 234 Mass. 42:

"There is nothing on the record to justify the assumption that the several municipalities design to devote to other than public use any portion of the income tax thus distributed to them. Every presumption is in favor of legality in the absence of evidence to the contrary."

This presumption of legality is a sound and strong one, and is amply sufficient to prevail over the effect of the admitted allegation of the petition.

The case presented is clearly not one of that extreme inequality in taxation of which the federal courts should lay hold, but involves, rather, a question of state policy of a character which the people have been satisfied to leave to the judgment, patriotism, and sense of justice of representatives in their state legislature.

The judgment of the Supreme Judicial Court of Massachusetts is

Affirmed.

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