

INCOME TAX ON RAILROADS IN ALASKA.

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Mr. SIMMONS, from the Committee on Finance, submitted the following

REPORT.

[To accompany H. R. 9770.]

The Committee on Finance, to whom was referred the bill (H. R. 9770) to levy and collect an income tax on railroads in Alaska, and for other purposes, having considered the same, report thereon with a recommendation that it do pass.

The report of the House Committee on the Territories is appended hereto and made a part hereof.

[House Report No. 500, Sixty-third Congress, second session.]

This bill proposes to repeal the existing law which imposes a license tax of \$100 per mile per annum on railroads operated in Alaska, and to substitute therefor an income tax of 4 per cent on the net income of railroad corporations doing business in Alaska.

One line of railroad extends across the boundary of Alaska into Canada, therefore the bill provides that the tax shall be levied on business done in Alaska only.

This tax on net income is proposed, among other reasons, because the National Government has heretofore imposed, for Federal purposes, a tax of 1 per cent on net income of all corporations, which is known as the normal income tax. In the act establishing the income tax there is prescribed the necessary machinery for ascertaining and collecting the tax.

By simply providing an additional tax of 4 per cent for local uses, to be ascertained and collected in the same manner as provided for the normal income tax, a simple and inexpensive method of taxation is provided requiring no new reports or machinery and entailing no additional cost for assessment or collection.

The existing \$100 per mile license tax has proved to be disastrous. It was imposed by an act of Congress approved in 1899, in which a system of license taxes was established for raising revenue in Alaska for Territorial purposes.

At that time there was no railroad in Alaska and apparently the matter was given very little consideration. The gross inequality of the tax is apparent. It is a flat \$100 per mile per year tax and makes no distinction whether the railroad cost \$100,000 a mile or only \$10,000 a mile. It makes no difference whether the line is a light tramroad, with only occasional tonnage, and operated for only a part of the year or is a standard-gauge railroad, with heavy and continuous traffic and earnings. The tax is as inequitable as if a city should impose a tax of \$100 per year on each house occupied within the city without regard to the fact whether the house be a cabin or a mansion. Although the tax would not be excessive for a strong, well-established railroad, it is an exceedingly burdensome one on new railroads built in the sparsely settled districts of Alaska and struggling to build up traffic in their infancy.

Railroads in new countries usually receive aid and assistance from the Government instead of being required to pay heavy taxes. Only after a country becomes settled and the business of the lines established can pioneer railroads bear heavy taxation.

This principle has been strikingly illustrated by the operation of this \$100 per mile license tax in Alaska. The following railroad lines have been built there:

	Miles.
White Pass & Yukon Railway.....	20
Seward Peninsula Railroad.....	86
Copper River & Northwestern Railway.....	100
Alaska Northern Railway.....	71
Council City & Solomon River Railway.....	34
Tanana Valley Railway.....	45
Total.....	452

Of these, the Seward Peninsula, the Alaska Northern, and the Council City & Solomon River lines have been forced to close down. Thus nearly half the mileage in the Territory has suspended operations.

The Seward Peninsula Railroad was bankrupted and shut down as a direct result of an action brought by the Government to collect the license tax. (See *U. S. v. Seward Peninsula R. R.*, 122 O. C. A., 265, and 203 Fed., 963; also *U. S. v. Northwestern Development Co.*, 122 O. C. A., 262, 203 Fed., 960.)

Various railroads in Alaska have been exempted from the payment of the tax for five-year periods by special acts of Congress, but the exemptions are all now expired, and other lines than those mentioned as closed down are threatened with criminal prosecution and ruin for having operated at intervals without having paid the license.

It was held in the case of the *United States v. Seward Peninsula Railroad Co.* that the license can only be enforced by criminal action. The license must be paid in advance.

The penalty for nonpayment is not the ordinary 10 or 15 per cent penalty, but is a sum equal to the amount of the tax for the first day's operation, double the amount of the tax for the second day's operation, and three times the amount of the tax with imprisonment for the third day; and every day's operation constitutes a separate offense.

Under this rule some of the roads which have been shut down and others which are still operating under sufferance are subject to millions of dollars of penalties. To enforce such penalties would be simply confiscation.

The closing of the lines mentioned has proved a great hardship to the people along their routes and is of no benefit to anyone, least of all to the Government, which should make every effort to encourage the building of railroads in Alaska.

Only two railroads, namely, the White Pass & Yukon Railway and the Copper River & Northwestern Railway, have paid the tax; so that, considered as a revenue measure, the license tax has proven a failure.

The repeal of the tax has been strongly recommended by the present governor of Alaska in his report for the year 1913. On pages 82 and 83 he says:

"Owing to a tax on the railroads in Alaska of \$100 per mile, two railroads have not been operated during the past year. One of these is in the Seward Peninsula section, the other in the Cook Inlet country. It would be difficult perhaps for these railroads, under present conditions, to earn actual operating expenses, and the tax imposed upon them renders their operation prohibitive. The closing down of these roads has worked a hardship on miners and prospectors, as they afforded facilities for the transportation of supplies, which are now denied them, and the development of the country is consequently retarded. It is therefore recommended that railroads in Alaska be relieved of taxation for the present."

The former governor of Alaska recommended in two annual reports the repeal of the tax. The Legislature of Alaska, having no power itself to repeal the law, memorialized Congress to do so.

The Secretary of the Interior strongly recommends the repeal of the present tax, and the Attorney General is understood to favor its repeal or modification.

It is submitted, therefore, that the substitution of an income tax of 4 per cent of the net income of railroads operating in Alaska for the \$100 per mile license tax will give the necessary relief and tend to encourage the construction of new lines to connect with the proposed trunk lines to be built by the Government.

It is a most equitable system of taxation, because a strong railroad with large earnings will pay in proportion to its earnings; while a new line during its infancy, when it can earn little or nothing above its operating expense, will be required to pay little or nothing. As soon as it begins to earn, it will begin to pay tax in proportion to its earnings.

The constitutionality of the proposed act is well sustained by the case of the *United States v. Binns* (104 U. S., p. 486).